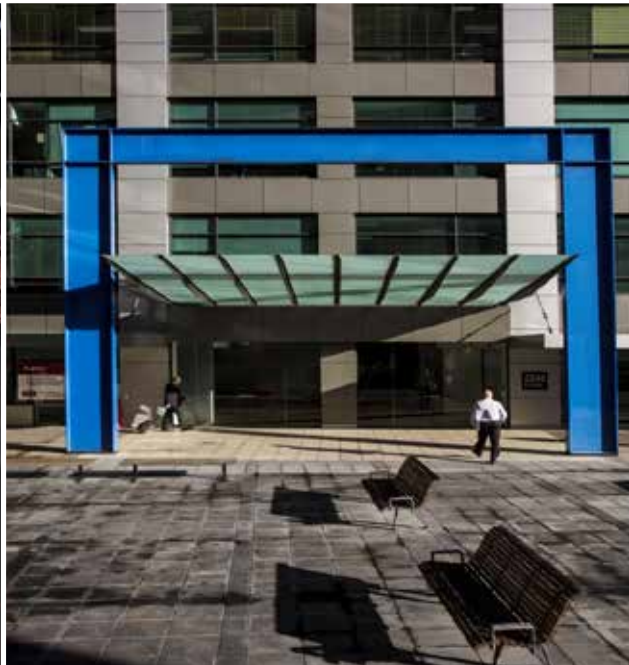




# Annual Results Presentation

Argosy Property Limited | 21 May 2014



Argosy

**CONTINUED**

**MOMENTUM**

Argosy

# Highlights



► [www.argosy.co.nz](http://www.argosy.co.nz)

# Highlights of FY14

Argosy

- ▶ Valuation gain of \$33.5 million, up 2.8% on book values
- ▶ Distributable income increased to \$50.0 million (increase of 18.4%)
- ▶ Net property income increased to \$82.2 million (increase of 17.7%)
- ▶ Net profit after tax increased to \$85.6 million (increase of 118%)
- ▶ Occupancy (by rental) increased to 98.7%, up from 96.2% in prior year
- ▶ Weighted average lease term ("WALT") increased to 5.68 years
- ▶ Acquisition of four high quality buildings & divestment of vacant land and under yielding properties
- ▶ Successful completion of 1 for 7 renounceable rights issue, raising \$86.9 million
- ▶ Bank facility restructured and extended on favourable terms
- ▶ Debt-to-total-assets within the policy at 36.5%

NET PROPERTY INCOME ▲

**\$82.2<sub>m</sub>**

OCCUPANCY ▲

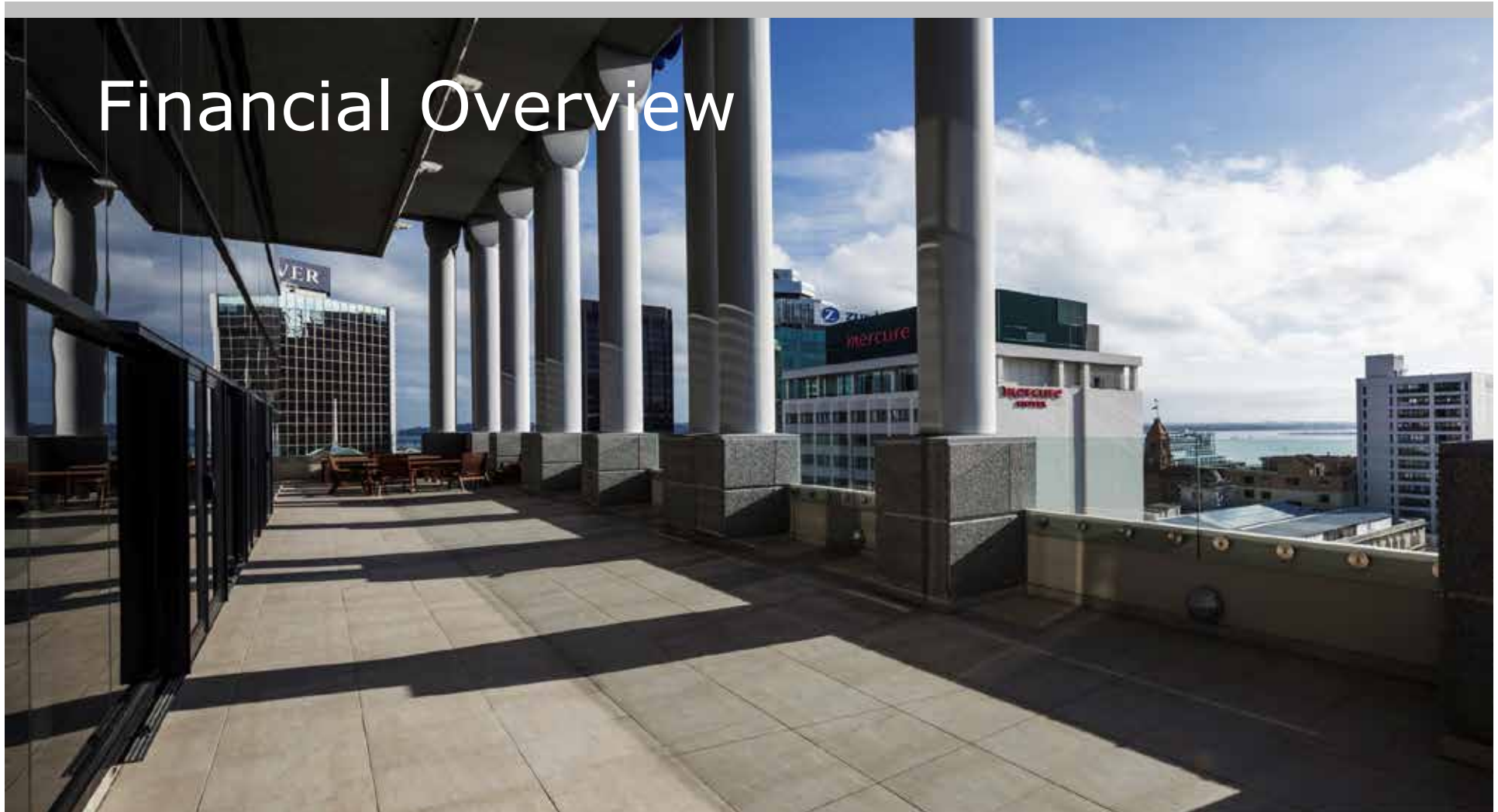
**98.7%**

REVALUATION GAIN ▲

**\$33.5<sub>m</sub>**

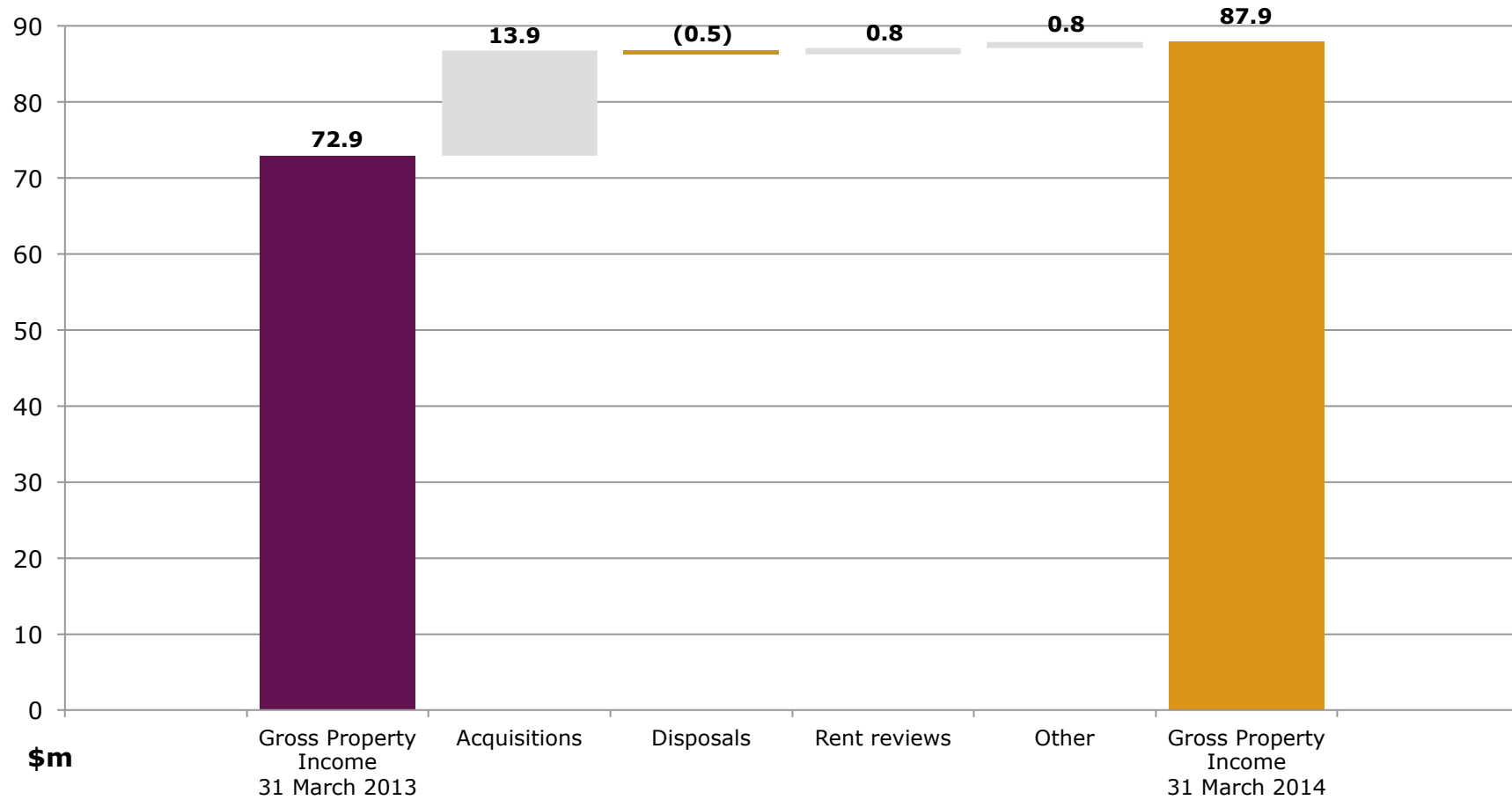


## Financial Overview



# Income Reconciliation

Argosy



# Financial Performance

Argosy

	<b>FY14</b>	<b>FY13</b>
Net property income	\$82.2m	\$69.9m
Administration expenses	\$(7.4m)	\$(5.9m)
Abnormals	\$(0.0m)	\$(0.9m)
<b>Profit before financial income/ (expenses) and other gains</b>	<b>\$74.8m</b>	<b>\$63.1m</b>
Interest expense	\$(25.4m)	\$(23.7m)
Gain/(loss) on derivatives	\$17.1m	\$(8.4m)
Finance income	\$0.1m	\$0.1m
Other gains/(losses)		
Revaluation gains	\$33.5m	\$9.3m
Realised losses on disposal	\$(1.3m)	\$(1.7m)
<b>Profit before tax</b>	<b>\$98.8m</b>	<b>\$38.7m</b>
Taxation expense	\$(13.2m)	\$0.5m
<b>Profit after tax</b>	<b>\$85.6m</b>	<b>\$39.2m</b>
Basic and diluted earnings per share (cents)	11.45	6.69

# Distributable Income

Argosy

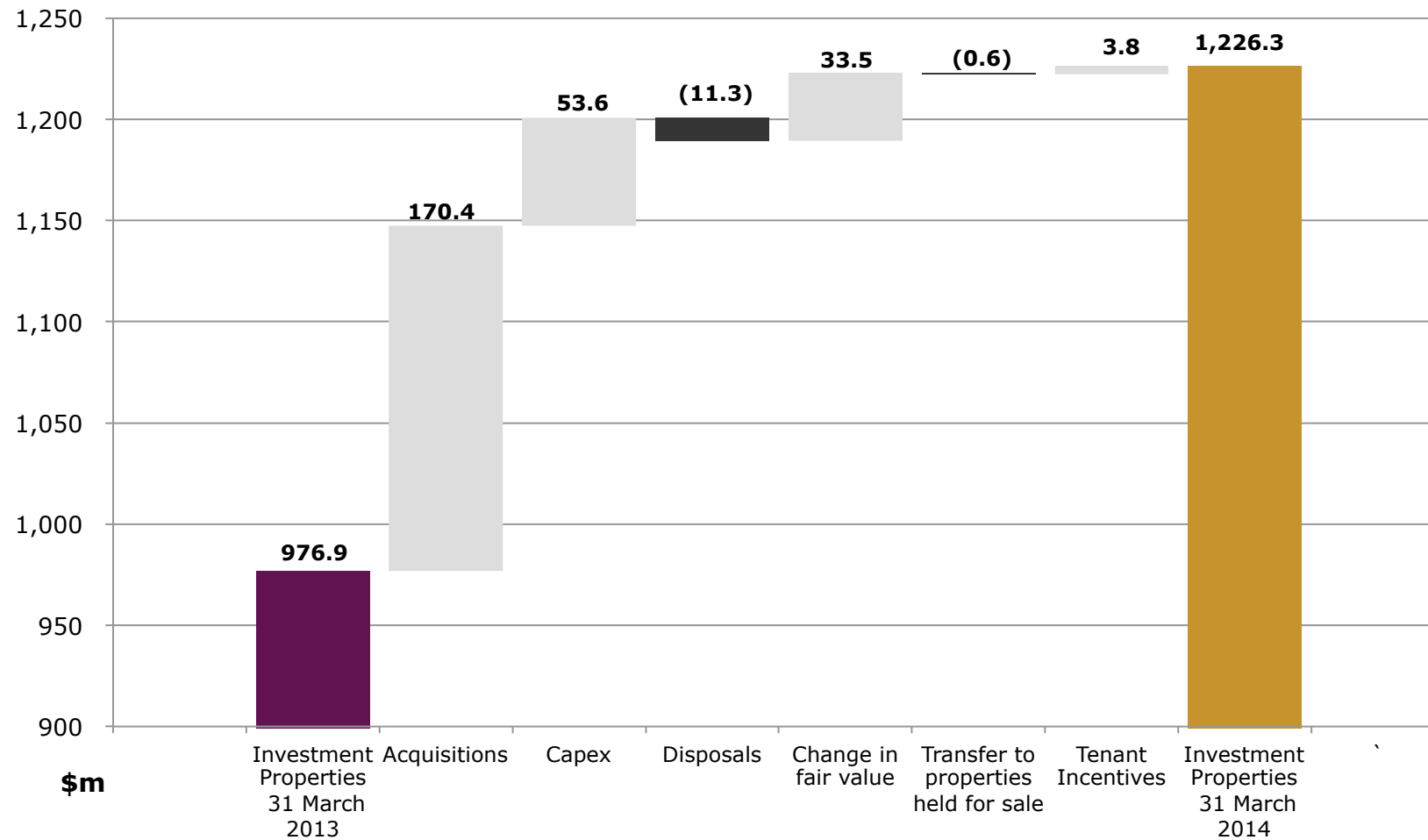
	<b>FY14</b>	<b>FY13<sup>1</sup></b>
Profit before income tax	\$98.8m	\$38.7m
Adjusted for:		
Revaluation gains	\$(33.5m)	(\$9.3m)
Investment disposal losses	\$1.4m	\$1.8m
Derivative fair value adjustment	\$(17.1m)	\$8.4m
Abnormals	-	\$0.8m
Depreciation recovered <sup>1</sup>	\$0.4m	\$1.8m
Gross distributable income	\$50.0m	\$42.2m
Tax paid	\$0.0m	\$0.0m
Net distributable income	\$50.0m	\$42.2m
Weighted average number of ordinary shares	747.0m	585.1m
Gross distributable income per share (cents)	6.69	7.22
Net distributable income per share (cents)	6.69	7.22

<sup>1</sup> The tax impact of depreciation recovered on the disposal of investment properties and taxable gains on disposal of properties held on revenue account have been included as an adjustment, consistent with industry practice and as agreed with bank financiers. Prior year distributable income has been restated to reflect this change.



# Investment Properties

Argosy



# Financial Position

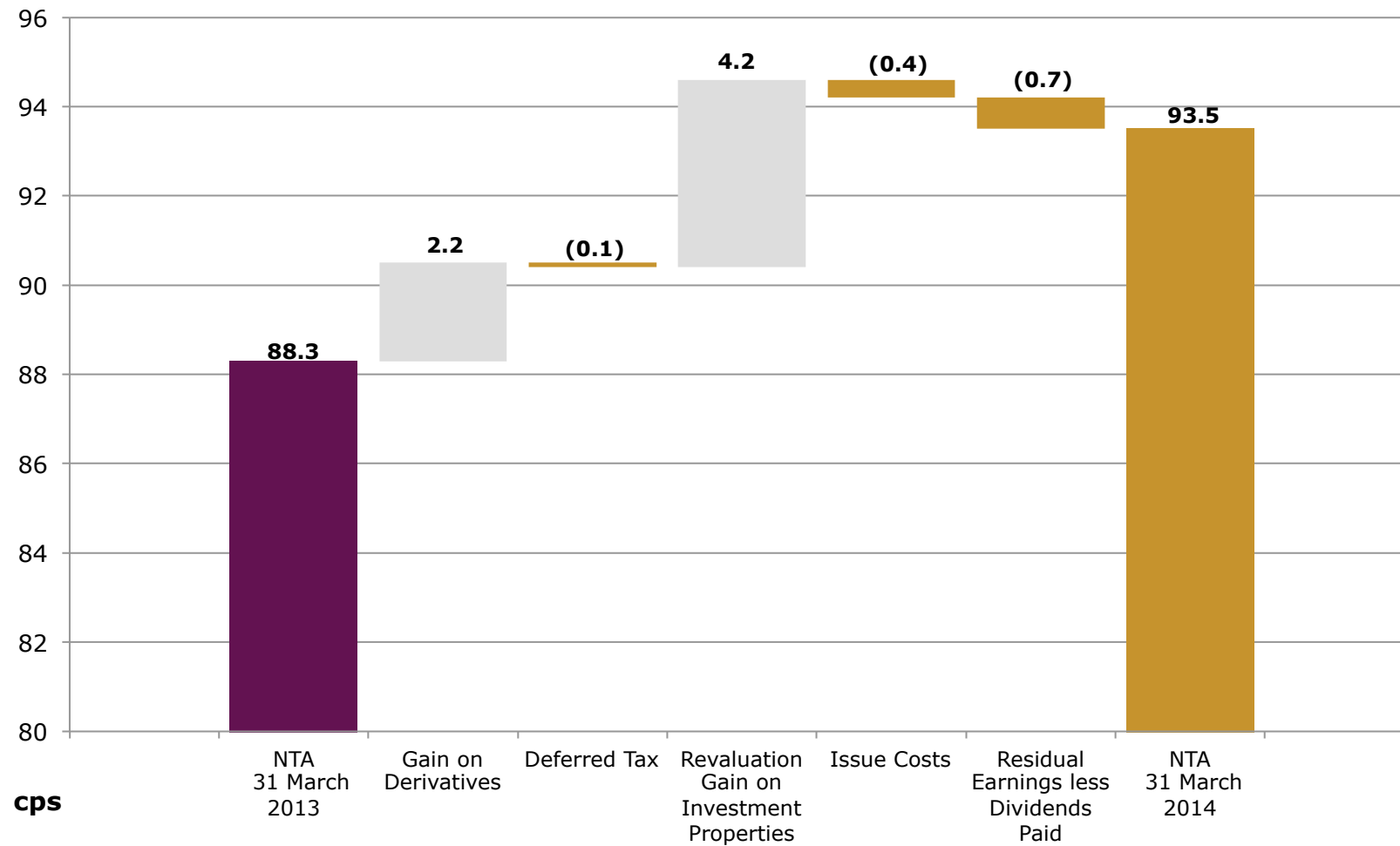
Argosy

	<b>FY14</b>	<b>FY13</b>
Shareholders' funds	\$739.5m	\$601.3m
Shares on issue	790.9m	680.9m
Net tangible asset backing per share (cents)	93.5	88.3

	<b>FY14</b>	<b>FY13</b>
Investment properties	\$1,226.3m	\$976.9m
Other assets	\$6.1m	\$15.8m
Total assets	\$1,232.4m	\$992.7m
Bank debt (excl. capitalised borrowing costs)	\$449.5m	\$328.7m
Debt-to-total-assets ratio	36.5%	33.1%

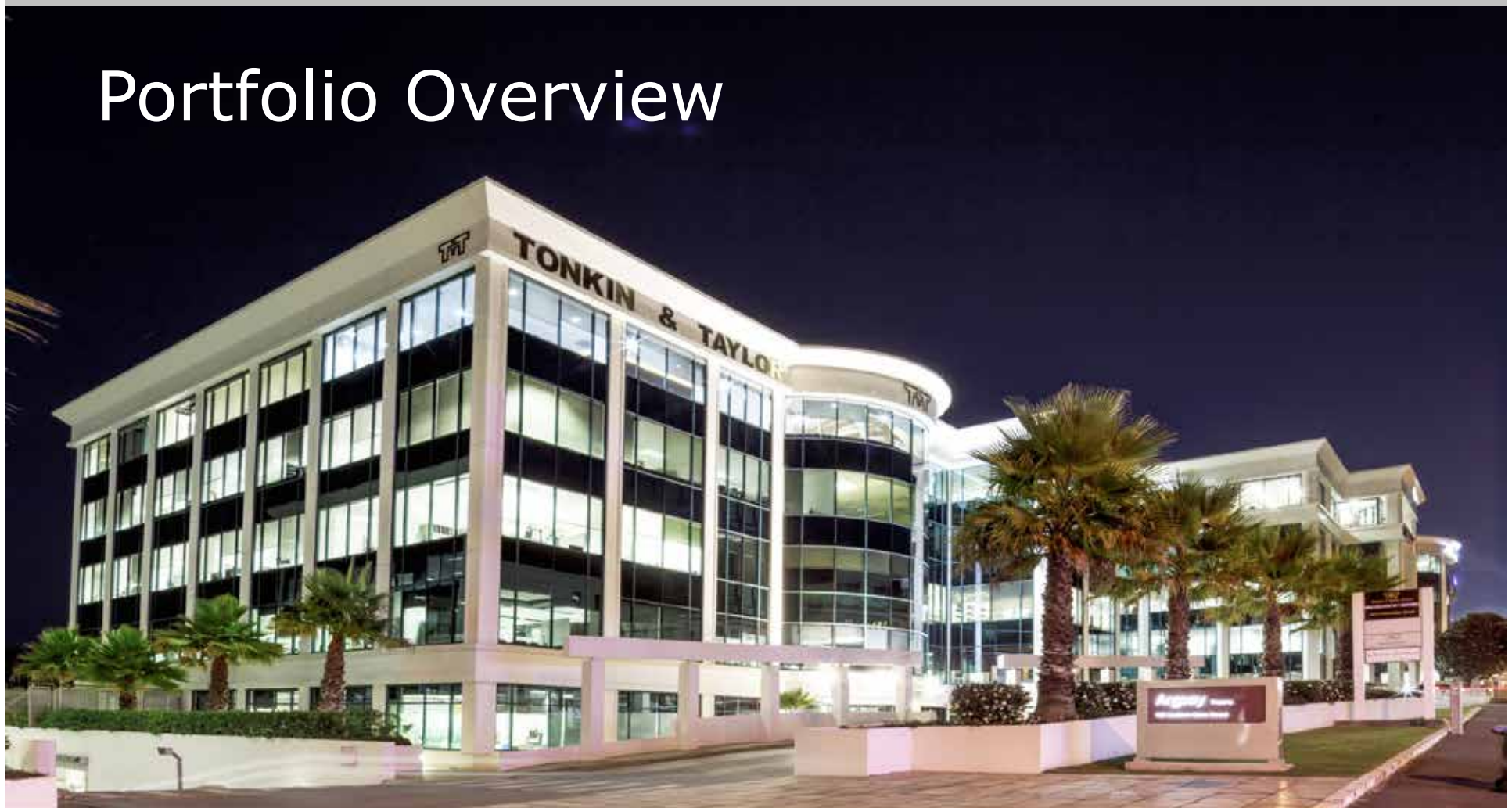
# Movement in NTA per share

Argosy



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# Portfolio Overview



► [www.argosy.co.nz](http://www.argosy.co.nz)

# Office

Argosy

NUMBER OF BUILDINGS

18

BOOK VALUE OF ASSETS (\$M)

\$437.34

VACANCY FACTOR (BY RENT)

1.65%

WALT (YEARS)

5.33





# Industrial

Argosy

NUMBER OF BUILDINGS

35

BOOK VALUE OF ASSETS (\$M)

\$441.78

VACANCY FACTOR (BY RENT)

0.63%

WALT (YEARS)

6.48



# Retail

Argosy

NUMBER OF BUILDINGS

13

BOOK VALUE OF ASSETS (\$M)

\$347.15

VACANCY FACTOR (BY RENT)

1.57%

WALT (YEARS)

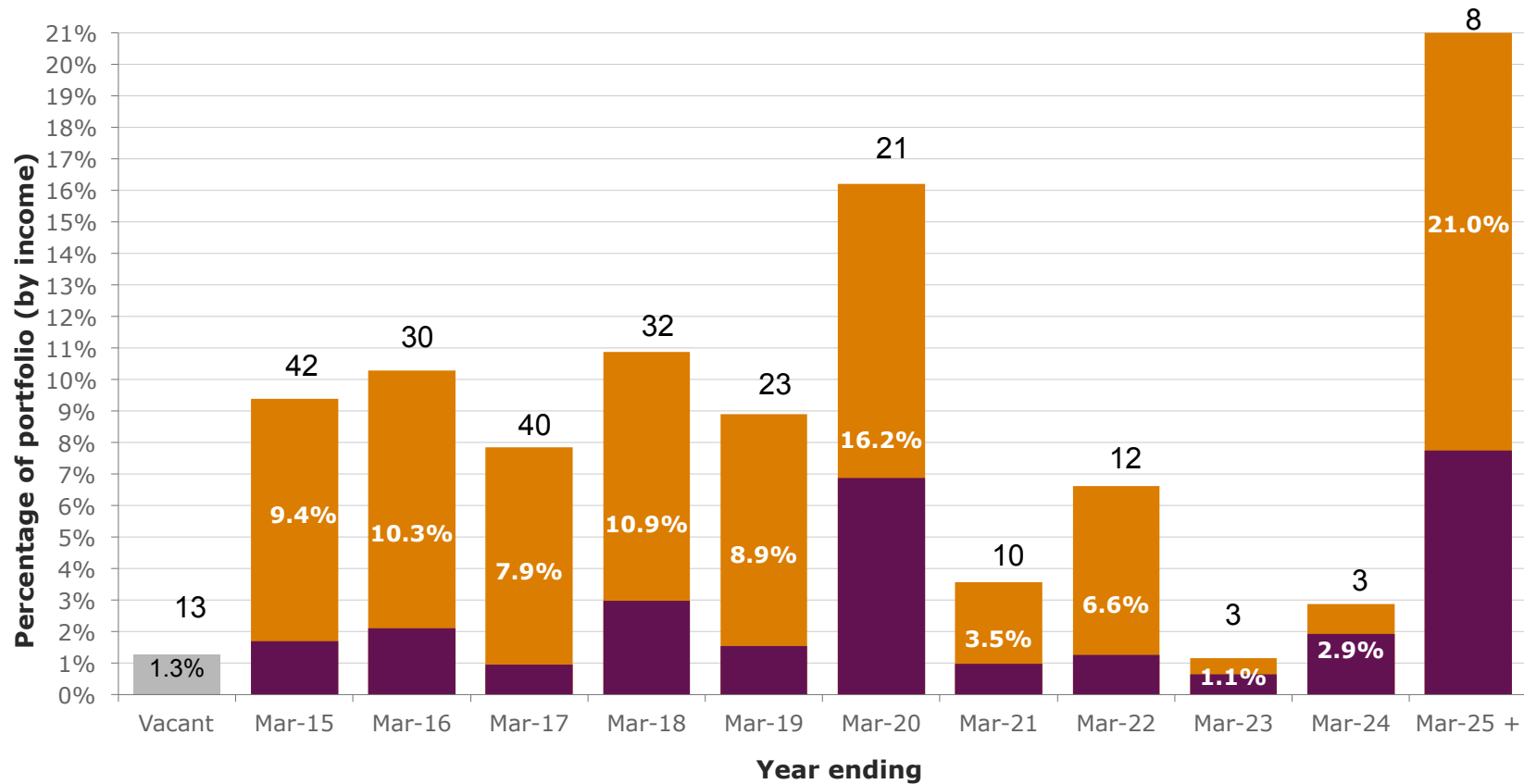
5.16



- ▶ The New Zealand economy is in an expansion phase with growth expected for 2014.
- ▶ Elevated levels of confidence, with activity expectations, employment and investment intentions above historical averages.
- ▶ We expect this to lead to a corresponding improvement in underlying property market performance.
- ▶ Increased expectation of growth in net effective rentals.
- ▶ Positive net absorption in industrial and office sectors in Auckland.
- ▶ The Auckland office market is very positive, the industrial market is solid but the retail market is facing the challenge of an increase in available space along with the threat of internet sales.
- ▶ Rental rates remain stable in Wellington as tenants seek buildings with high seismic ratings.
- ▶ Tenant enquiry levels remain very high and incentive levels have reduced.

- ▶ Occupancy, tenant retention and lease expiries remain the key focus areas for the asset management team.
- ▶ Occupancy (by rental) has improved to 98.7%, up from 96.2% at March 2013. *(Occupancy improves to approximately 99.1% following the sales of Main Street, Palmerston North and Pacific Rise, Mt Wellington)*
- ▶ Outstanding lease expiries for the period to 31 March 2015 are 9.4%. *(Outstanding lease expiries to 31 March 2015 have since reduced to 7.5% as at 30 April 2014).*
- ▶ During the period, 59 lease transactions were completed, including 39 new leases and 20 lease renewals and extensions.
- ▶ The weighted average lease term improved to 5.68 years, an eleven year high, up from 5.24 years at 31 March 2013.

# Lease Maturity



The number above each bar denotes the total tenant expiries per year (excluding monthly car parks and tenants with multiple leases within one property).

As at 30 April 2014, current year expiries have fallen to 7.5% of the portfolio (by income), reduced from 9.4% at 31 March 2014.



# Top 10 FY15 Expiries



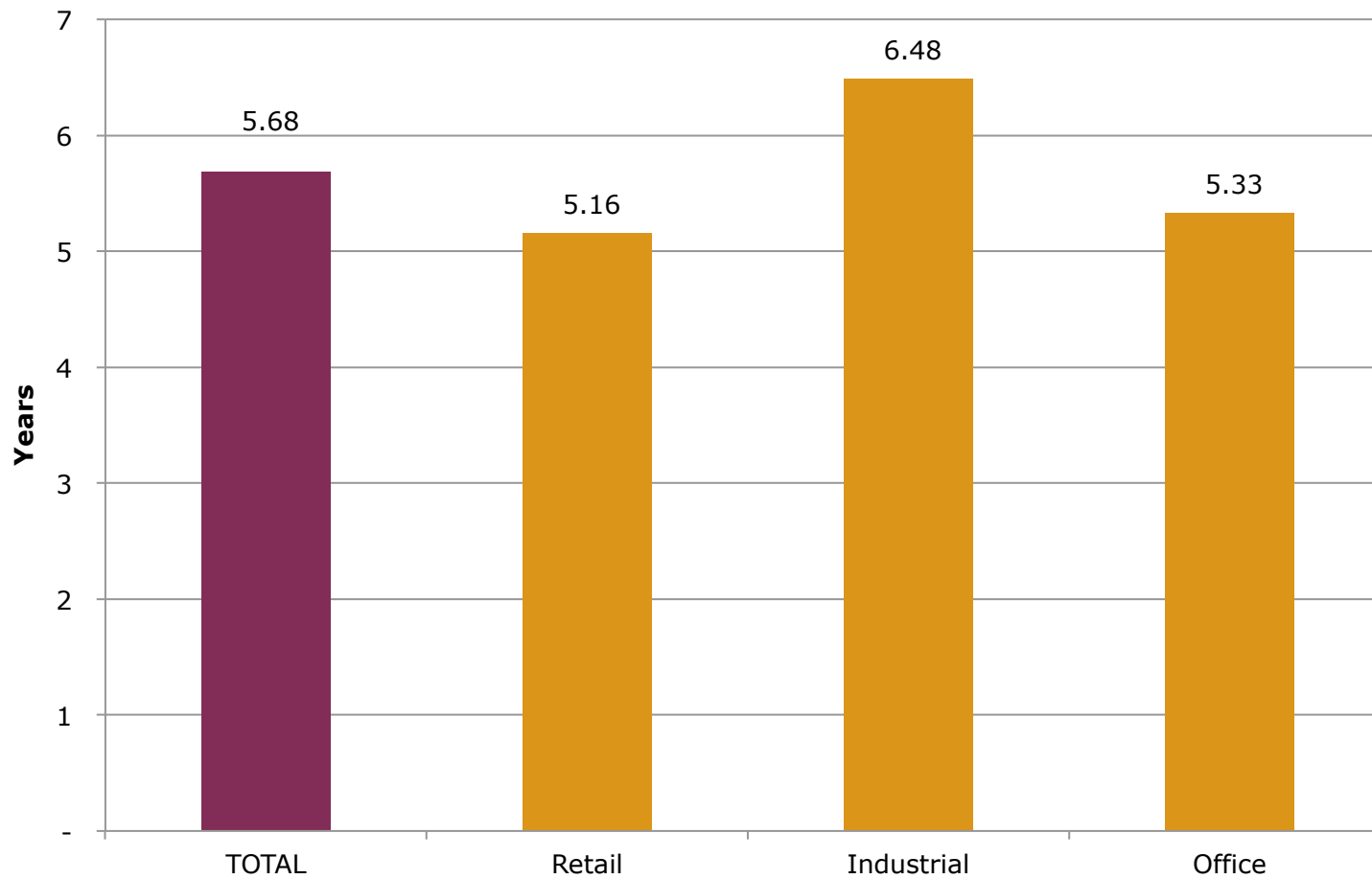
Tenant	Building	NLA (sqm)	Current Rent	Expiry Date
Boffa Miskell	IBM Centre, Wyndham Street, Auckland	1,951	\$631,108	17-Feb-15
Electrix Limited	Cnr William Pickering Drive & Rothwell Ave, Auckland	5,110	\$540,000	01-Sep-14
Polarcold Stores Limited	8 Foundry Drive, Christchurch	4,160	\$480,000	Monthly
<i>Greenmark Wholesaler (NZ) Limited</i>	<i>Albany Lifestyle Centre, Auckland</i>	<i>2,325</i>	<i>\$437,189*</i>	<i>31-Jan-15</i>
<i>Number 1 Shoes Limited</i>	<i>7 Wagener Place, Auckland</i>	<i>1,193</i>	<i>\$415,623*</i>	<i>30-Jun-14</i>
Linfox Logistics (N.Z.) Limited	32 Bell Avenue, Auckland	5,272	\$407,005	30-Apr-14
Noel Leeming Group Limited	Albany Mega Centre, Auckland	1,465	\$382,843	01-Aug-14
International Accreditation NZ	626 Great South Rd, Auckland	1,208	\$313,076	31-Mar-15
DKSH New Zealand Limited	44 Neil Lane, Palmerston North	3,233	\$285,000	31-Mar-15
Kimbyr Investments Limited	Albany Mega Centre, Auckland	748	\$268,457	30-Jun-14

\* Renewed or extended beyond 31 March 2015

# Weighted Average Lease Term

as at 31 March 2014

Argosy



# Acquisitions



## 80 Favona Rd, Mangere, Auckland

The property comprises a large integrated distribution centre and head office complex on a large level industrial lot in the Auckland suburb of Mangere.

Property type	Industrial
Net lettable area	59,448 sqm
Settlement date	June 2013
Lease term at acquisition	11.2 years
Purchase price	\$74.0 million
Initial passing yield	8.2%
Valuation @ 31/3/14	\$74.5 million
Yield on contract	8.2%
Major tenant	General Distributors Limited



## 101 Carlton Gore Rd, Newmarket, Auckland

A single tenanted, modern office building located in Newmarket, surrounded by quality commercial office blocks with great views of the Auckland Domain.

The property has five levels of office space with carparking over two levels.

Property type	Office
Net lettable area	4,714 sqm
Settlement date	September 2013
Lease term at acquisition	7.5 Years
Purchase price	\$22.25 million
Initial passing yield	8.0%
Valuation @ 31/3/14	\$22.25 million
Yield on contract	8.0%
Major tenant	Vector Limited



## 19 Nesdale Ave, Wiri, Auckland

The property is a modern, purpose-built warehouse storage facility located approximately 3 kilometres west of Manukau CBD and has good access to the South Western motorway, allowing direct connection to Auckland International Airport.

Property type	Industrial
Net lettable area	20,677 sqm
Settlement date	December 2013
Lease term at acquisition	15 Years
Purchase price	\$38.0 million
Initial passing yield	7.5%
Valuation @ 31/3/14	\$38.1 million
Yield on contract	7.5%
Major tenant	Cardinal Logistics





# Developments

## 15-21 Stout Street

The redevelopment is progressing well, is on budget and is expected to be completed by mid-2014.

<b>Property type</b>	<b>Office</b>
Net lettable area	19,629 sqm
Lease commencement	July 2014
Lease term	12 years
Passing yield on end cost	8.11%
Purchase price	\$33.2 million
Upgrade cost	\$46.6 million
End cost	\$79.8 million



## NZ Post House

The contract to complete the upgrade has been awarded to Hawkins Construction. Work has commenced and is expected to be complete by the end of 2015.

<b>Property type</b>	<b>Office</b>
Net lettable area	24,977 sqm
Lease commencement	March 2013
Lease term	7 years
Passing yield on end cost	8.50%
<hr/>	
Purchase price	\$60.0 million
Upgrade cost	\$40.0 million
End cost	\$100.0 million



- ▶ Increase in property valuations of \$33.5 million, up 2.8% on book values immediately prior to the revaluation.
- ▶ This is the fourth year in succession that Argosy has had positive property revaluations.
- ▶ The portfolio is now valued at \$1.226 billion.
- ▶ Post revaluation Passing Yield of 7.96% and Fully Let Market Yield of 7.93%.
- ▶ Potential for further rental growth in the future.

# Valuations

Argosy

Sector	Valuation (\$000)	Book value 31/3/14, pre revaluation (\$000)	Gain/(loss) (\$000)	% change	Yield on Contract	Yield on Market
Industrial	441,781	431,006	10,775	2.50%	7.67%	7.73%
Retail	347,145	336,231	10,914	3.25%	7.82%	7.73%
Office	437,340	425,581	11,759	2.76%	8.36%	8.30%
	<b>1,226,266</b>	<b>1,192,818</b>	<b>33,448</b>	<b>2.80%</b>	<b>7.96%</b>	<b>7.93%</b>

Location	Valuation (\$000)	Book value 31/3/14, pre revaluation (\$000)	Gain/(loss) (\$000)	% change	Yield on Contract	Yield on Market
Auckland	858,450	834,353	24,097	2.89%	8.08%	7.96%
Wellington	265,920	259,453	6,467	2.49%	8.11%	8.15%
Palmerston North	58,656	54,905	3,751	6.83%	4.44%	5.28%
Other Regional	43,240	44,107	(867)	-1.97%	9.37%	9.62%
	<b>1,226,266</b>	<b>1,192,818</b>	<b>33,448</b>	<b>2.80%</b>	<b>7.96%</b>	<b>7.93%</b>

# Argosy

## Strategy



► [www.argosy.co.nz](http://www.argosy.co.nz)

We have a clear investment strategy marked by a diversified portfolio of desirable properties that attract high-quality, long-term tenants.

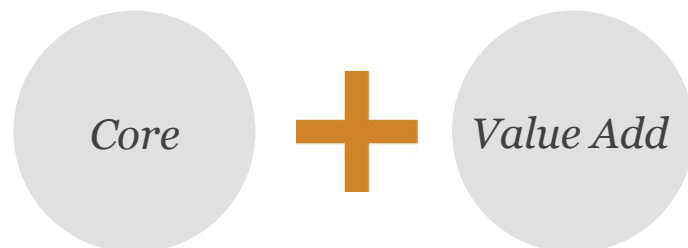


# Portfolio Investment Strategy

Argosy

Argosy is and will remain invested in a portfolio that is diversified by sector, grade, location and tenant mix. The portfolio will be in the Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.

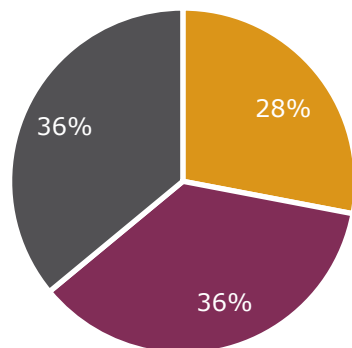
Argosy's portfolio consists of "Core" and "Value Add" properties. Core properties are well constructed, well located assets which are intended to be long-term investments (>10years). Core properties will make up 75-85% of the portfolio by value.



# Portfolio Mix as at 31 March 2014

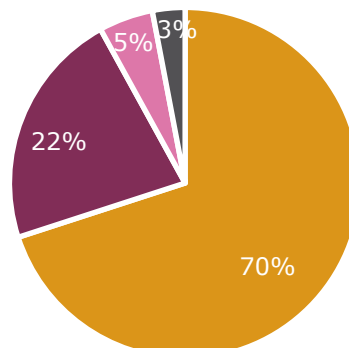


**TOTAL PORTFOLIO VALUE BY SECTOR**



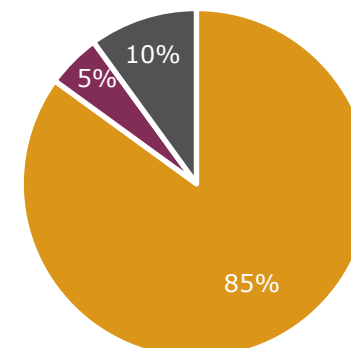
	Target
■ Retail	15 – 25%
■ Office	35 – 45%
■ Industrial	35 – 45%

**TOTAL PORTFOLIO VALUE BY REGION**



	Target
■ Auckland	65 – 75%
■ Wellington	20 – 30%
■ Palmerston North	
■ Other regional	

**PORTFOLIO MIX**



	Target
■ Core	75 – 85%
■ Value Add properties	
■ Properties and land to divest	

- ▶ **The Board's policy is for debt-to-total-assets to be between 35 to 40% in the medium term.**
- ▶ The reasonable, proportional use of debt and equity to support its assets is a key indicator of balance sheet strength. Astute use of leverage increases the resources available for growth and expansion.
- ▶ The optimal capital structure for Argosy should be one that enables the Company to maximise its earnings yield through the property cycle within the following parameters:
  - Properties can be acquired when they meet investment policy and sold if non-Core;
  - Limited forced sales or requirement to issue equity at a price dilutive to shareholders;
  - Measured dividend growth is maintained.

# Bank Covenants



## Loan to valuation ratio (LVR) – based on:

	FY14	FY13
Total borrowings	\$449.5m	\$328.7m
Fair market value of properties <sup>1</sup>	\$1,226.9m	\$983.6m
Not to exceed 50%	36.6%	33.4%

## Interest cover ratio – based on EBIT/Interest and Financing Costs:

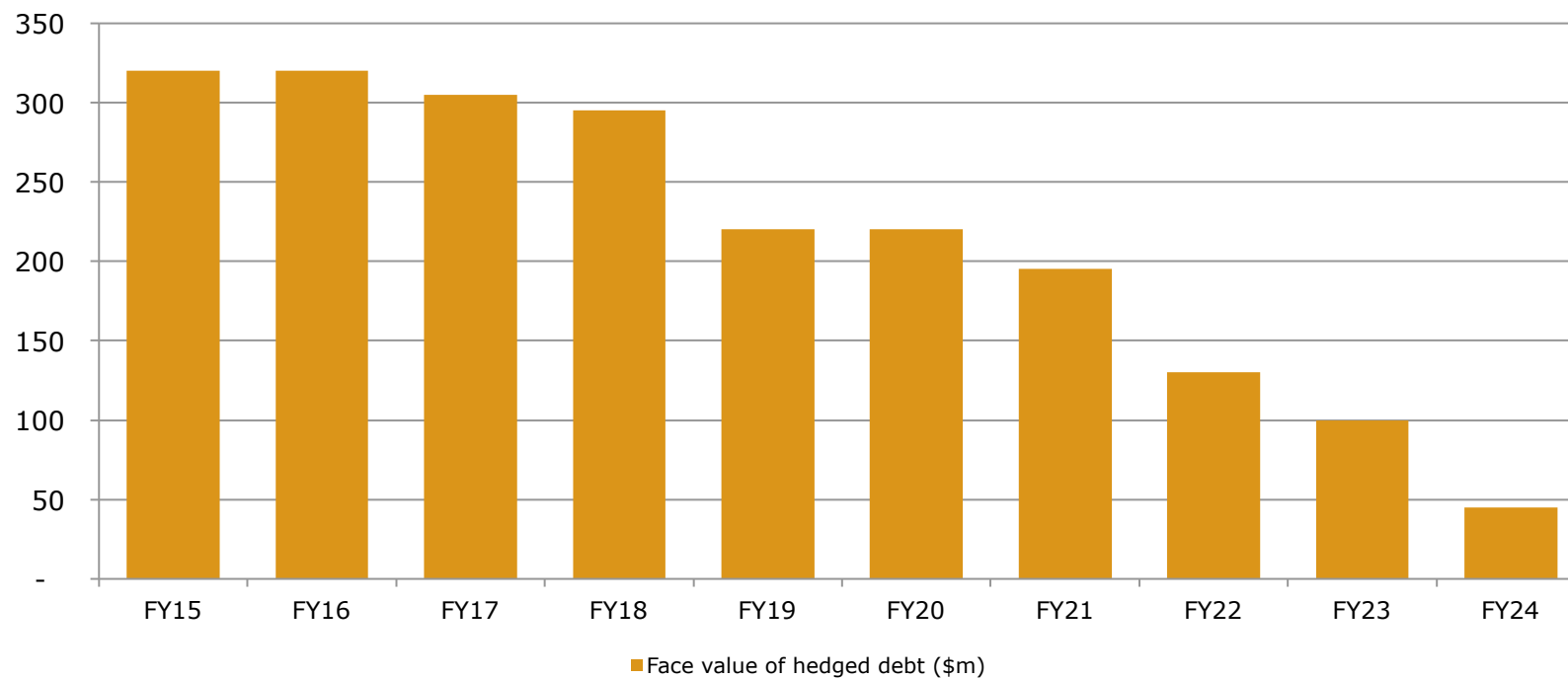
	FY14	FY13
Must exceed 2:00x	2.62x	2.33x

<sup>1</sup> includes properties held for sale

# Interest Rate Hedging Profile

Argosy

	31 March 14	31 March 13
Percentage of drawn debt hedged	69%	86%
Weighted average fixed interest rate (excl. margin & line fees)	4.67%*	5.87%
Weighted average duration (years)	7.11	5.85



Argosy

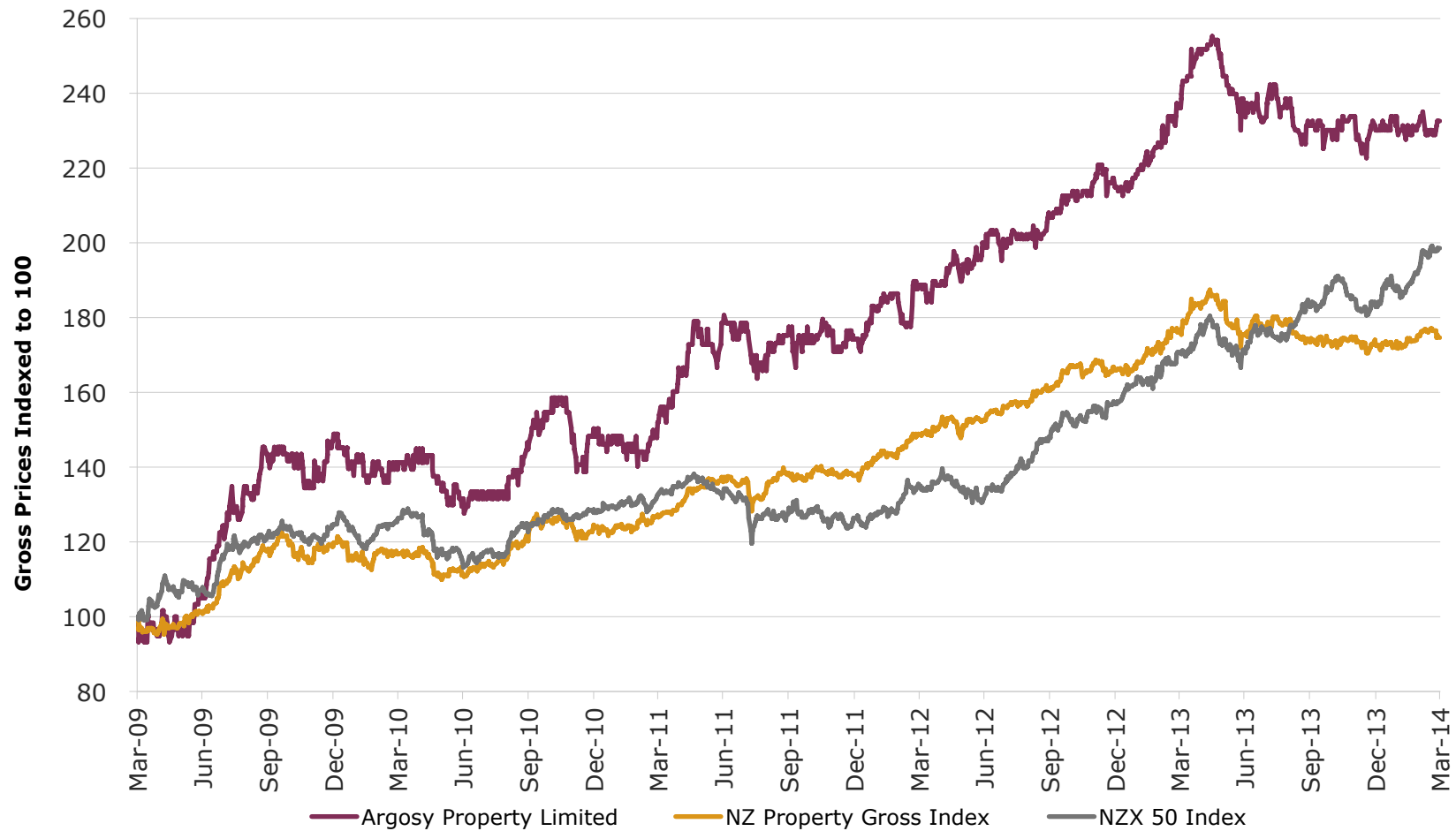
# Share Price Performance



► [www.argosy.co.nz](http://www.argosy.co.nz)



# Share Price Performance – 5 Years



# Argosy

## Concluding Comments



# Concluding Comments

Argosy

- ▶ The 2014 financial year was one of continued momentum for Argosy.
- ▶ Our focus remains on maintaining the portfolio's high level of occupancy as well as increasing the lease expiry profile and tenant retention rate.
- ▶ We will also continue to look for opportunities to develop the portfolio in line with our strategy.

Argosy

Thank you



► [www.argosy.co.nz](http://www.argosy.co.nz)

# Disclaimer

Argosy

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All values are expressed in New Zealand currency unless otherwise stated.

May 2014