



FY19 Annual Results Presentation

Argosy Property Limited
23 May 2019

► www.argosy.co.nz



AGENDA



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PRESENTED BY:

Peter Mence CEO



Dave Fraser CFO



Note: This result should be read in conjunction with the NZX release dated 23 May 2019. Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not reflect exactly absolute figures.



Our strength lies in the diversity of our portfolio by sector, location and tenant mix, providing flexibility to support our tenants changing needs, ensuring a resilient business model through various economic cycles.”

Peter Mence
CEO

HIGHLIGHTS

Argosy



23 Customs Street, Snickel Lane

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FY19 Full Year Highlights



35.1%

Total shareholder
return for 12 months

5.0%

Net Distributable
Income increase

\$70.5m

Annual revaluation gain,
4.3% above book value

\$100m

Successful Green Bond
Issue

6.1 yr

Weighted average
lease term (WALT)

6.275c

Full year dividend



Strategy / Portfolio



23 Customs Street, Level 2 – Predict HQ

Investment Strategy / Policy



Investment Strategy

- ▶ Consists primarily of Core and Value Add properties.
- ▶ Core properties to be between 75-90% of the portfolio by value.
- ▶ Value add properties to be between 10-15% of the portfolio by value.

Investment Policy Framework

- ▶ Target sector bands (Industrial 40-50%, Office 30-40%, Retail 15-25%).
- ▶ Preference for acquisitions > \$10m.
- ▶ Undertake developments with partners/tenants.
- ▶ Enter JV's only where counterparty of sufficient standing.
- ▶ No international or leasehold properties.
- ▶ Management of external portfolios where complementary.

Create. Manage. Own.



Proactive delivery of sustainable growth.



An environmentally focused & sustainable business

Transition value add properties to drive earnings and capital growth

Streamlined tenant led development process and execution



A diversified portfolio of high quality, well located assets with growth potential

Real estate with a primary focus on Auckland & Wellington markets

Target off market opportunities or contiguous properties with potential



Manage all elements of the business to deliver the right outcomes for all our stakeholders.



Strong and valued relationships across all key stakeholders

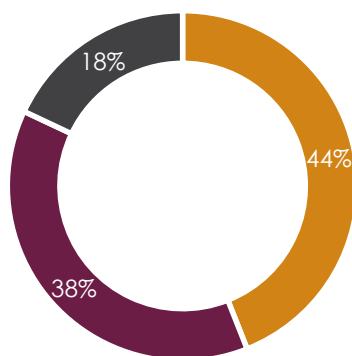
Safe working environments for Argosy's people and its partners

A commitment to management excellence

Own the right assets, with the right attributes in the right locations.

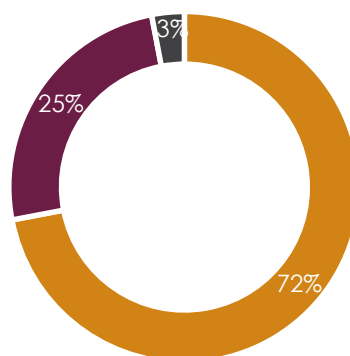
Portfolio at a Glance

TOTAL PORTFOLIO VALUE
BY SECTOR



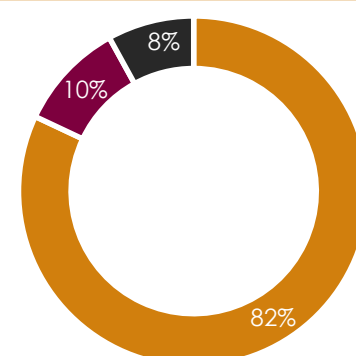
- Industrial
- Office
- Retail

TOTAL PORTFOLIO VALUE
BY REGION



- Auckland
- Wellington
- Regional North Island & South Island

PORTFOLIO MIX
BY VALUE



- Core properties
- Value Add properties
- non Core

► Divestment of non Core assets continued through FY19.

Sector Summary



INDUSTRIAL

NUMBER OF BUILDINGS

37

MARKET VALUE OF ASSETS (\$M)

\$737.7

OCCUPANCY (BY INCOME)

97.8%

WALT (YEARS)

7.2

CONTRACT YIELD

6.15%



OFFICE

NUMBER OF BUILDINGS

16

MARKET VALUE OF ASSETS (\$M)

\$626.6

OCCUPANCY (BY INCOME)

96.8%

WALT (YEARS)

4.9

CONTRACT YIELD

6.88%



RETAIL

NUMBER OF BUILDINGS

7

MARKET VALUE OF ASSETS (\$M)

\$302.8

OCCUPANCY (BY INCOME)

100%

WALT (YEARS)

6.0

CONTRACT YIELD

6.22%

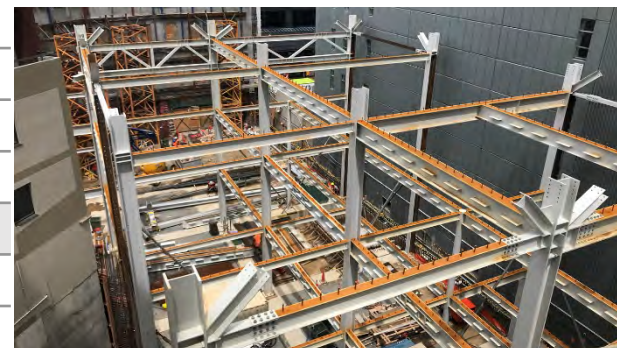
Value Add

► The following properties have been designated as Value Add and make up ~10% of the total portfolio:

Property	Sector	Location	Valuation \$m
90 - 104 Springs Road, East Tamaki	Industrial	Auckland	5.7
80 Springs Road, East Tamaki	Industrial	Auckland	13.2
211 Albany Highway, Albany	Industrial	Auckland	26.2
960 Great South Road, Penrose	Industrial	Auckland	6.9
133 Roscommon Road, Wiri	Industrial	Auckland	8.7
180-202 Hutt Road, Kaiwharawhara	Industrial	Wellington	12.9
99-107 Khyber Pass Road, Grafton	Office	Auckland	11.6
107 Carlton Gore Road, Newmarket	Office	Auckland	29.0
8-14 Willis Street	Office	Wellington	22.8
Stewart Dawsons Corner	Retail	Wellington	18.3
252 Dairy Flat, Albany	Retail	Auckland	7.9
TOTAL \$m (excl. land)			163.2
56 Jamaica Drive, Grenada North	Land	Wellington	1.1
15 Unity Drive, Albany	Land	Auckland	4.5
TOTAL \$m			168.8



8-14 Willis Street (yellow) and Stewart Dawsons Corner (red).



Stewart Dawsons Corner – internal framework

Development Pipeline



Development	Major Tenant	Type	Location	Total Cost \$m	Spent to 31-Mar \$m	Forecast completion	FY 2020		FY 2021	
							Sep-19	Mar-20	Sep-20	Mar-21
Underway / commenced										
180-202 Hutt Road	Placemakers	IND	WTN	10.3	6.1	Dec-19	<div></div>			
Stewart Dawsons Corner	In final discussions	RET	WTN	20.0	12.0	Jul-20	<div></div>			
Planned										
107 Carlton Gore Road	Housing New Zealand	OFF	AKL	12.0	0.6	Mar-20	<div></div>			
8-14 Willis Street	Statistics New Zealand	OFF	WTN	64.0	0.5	Apr-21	<div></div>			
TOTAL				106.3	19.2					

Green buildings

- ▶ **180-202 Hutt Road:** Progressing well. Stage 1 comprising 1,300m² of showroom and office was completed recently. Stage 2 works, comprising the drive through warehouse and hardstand area, will be complete by December 2019.
- ▶ **Stewart Dawsons Corner:** In final discussions with an international retailer to occupy the entire building of 3,400m².
- ▶ **Carlton Gore Road:** 12 year lease with Housing New Zealand Corporation commencing 1 March 2020 for the entire 6,100m² of net lettable area will commence following a \$12.0m building upgrade expected to take approximately six months. Targeting Green Star and NABERSNZ ratings. On completion the building will be an A Grade building valued at \$44.6m.
- ▶ **8-14 Willis Street:** The development will create a substantially new 11 level, 11,800m² building that will target a 6 Green Star Built rating and 5 Star NABERSNZ energy efficiency rating. New 15 year lease with the Crown (Statistics New Zealand) to occupy the entire building, other than the 500m² ground floor retail component. On completion 8-14 Willis Street will have an independent valuation of \$94m. The development is projected to deliver an internal rate of return of 8.2% and a 7.2% initial yield.

7 Waterloo Quay Update

▶ **Damage Assessment**

- ▶ Interim damage assessment reports and reinstatement scope reports with insurers.
- ▶ Cost assessment estimate has recently been completed and submitted to insurers.
- ▶ Currently reconciling reinstatement costs incurred with the cost estimate submitted to insurers.

▶ **Insurance Claim**

- ▶ Claims have been submitted for loss of rents for the two-year period from the date of the earthquake to mid-November 2018, totalling \$14.2m. No further claims in respect of loss of rents are expected.
- ▶ Total cash amount received to 31 March 2019 is \$20.9m (after \$4.9m deductible). Of this amount, \$10.8m has been allocated to material damage reinstatement, \$1.6m to expense recoveries and \$8.5m to loss of rents.
- ▶ For the period to 31 March 2019, \$11.1m has been recognised in progress payments from insurers. Of this amount, \$8.5m has been allocated to reinstatement, and \$2.6m to loss of rents.

▶ **Leasing**

- ▶ Changes in the method of measurement for seismic resilience has meant an upgrade is required to bring the building up to required standard for long term government occupation.
- ▶ Cost is not final but estimated at \$27m to complete this work by November 2019.
- ▶ Office leasing environment in Wellington is favourable and Argosy is currently in advanced negotiations with Crown organisations.

Valuations



	31 March 19	31 Mar 19	Δ	Δ	Market Yield	
	Book Value \$m	Valuation \$m			31 Mar 19	31 Mar 18
Auckland	1,161.5	1,206.8	45.3	3.9%	6.43%	6.75%
Wellington	422.9	412.8	(10.1)	-2.4%	7.48%	7.60%
North Island Regional & South Island	46.8	47.4	0.6	1.3%	7.45%	7.96%
Total	1,631.2	1,666.9	35.8	2.2%	6.65%	6.98%

	31 March 19	31 Mar 19	Δ	Δ	Market Yield	
	Book Value \$m	Valuation \$m			31 Mar 19	31 Mar 18
Industrial	713.4	737.7	24.3	3.4%	6.46%	6.74%
Office	627.8	626.6	(1.2)	-0.2%	7.14%	7.37%
Retail	290.0	302.7	12.7	4.4%	6.27%	6.80%
Total	1,631.1	1,666.9	35.8	2.2%	6.65%	6.98%

- ▶ Second half revaluation gain of \$35.8m or 2.2% above book value resulting in a full year gain of \$70.5m or 4.3% above book value.
- ▶ Regionally, Auckland biggest contributor again. Big increases for Albany Mega (\$16m or 15%) and 211 Albany Highway (\$3.8m or 17%).
- ▶ Wellington market results mixed.
- ▶ Portfolio market yield¹ firmed 33bps with Auckland firming 32bps and Retail 53bps.

¹ Yields exclude Waterloo Quay, 8-14 Willis Street and Stewart Dawsons Corner.

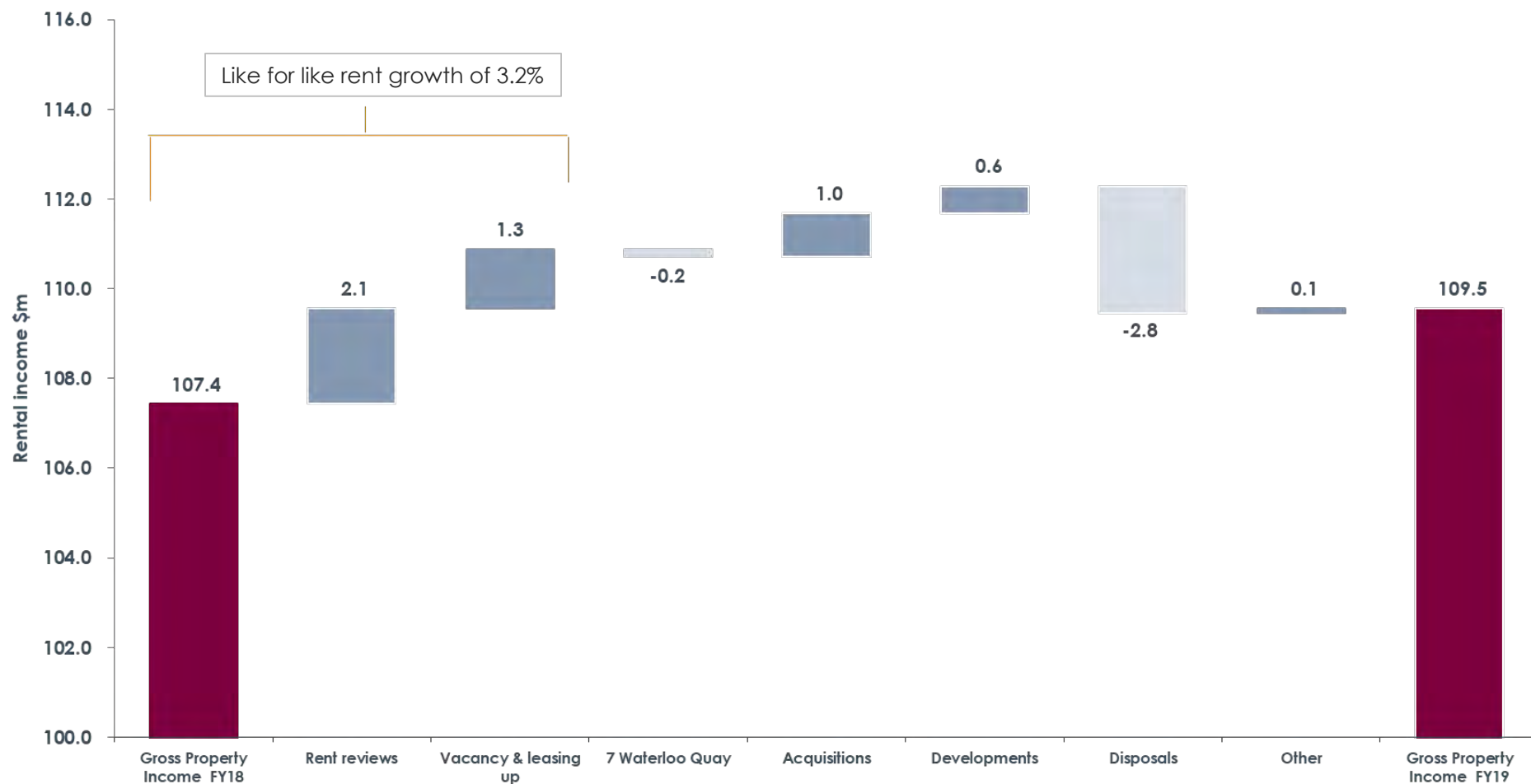
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FINANCIALS



Albany Mega Centre

Income Reconciliation



Financial Performance



	FY19 \$m	FY18 \$m
Net property income	102.5	101.0
Administration expenses	(10.9)	(9.9)
Profit before financial income/(expenses), other gains/(losses) and tax	91.5	91.1
Interest expense	(24.2)	(25.5)
Gain/(loss) on derivatives	(7.4)	(4.1)
Revaluation gains	70.5	47.3
Realised gains/(losses) on disposal	6.1	0.3
Net: Insurance proceeds & earthquake expense	6.8	0.2
Profit before tax	143.3	109.3
Taxation expense	(9.6)	(11.1)
Profit after tax	133.7	98.2
Basic and diluted earnings per share (cents)	16.16	11.90

Like-for-like gross rental growth of 3.2% driving increase in net income

Expenses up due to one-off restructuring and additional resourcing costs across the business

Annual revaluation gains driven by a mix of cap rate firming and rental growth
Solid realised gains due to favourable vendor market

Lower tax expense driven by movement in deferred tax, higher capitalised interest, non assessible insurance proceeds and losses on disposal.

Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not reflect exactly absolute figures.

Distributable Income



	FY19 \$m	FY18 \$m
Profit before income tax	143.3	109.3
Adjusted for:		
Revaluations gains	(70.5)	(47.3)
Realised losses/(gains) on disposal	(6.1)	(0.3)
Derivative fair value loss/(gain)	7.4	4.1
Earthquake expense net of recoveries	(6.8)	(0.2)
Gross distributable income	67.3	65.6
Depreciation recovered	1.7	0.6
Current tax expense	(11.7)	(11.6)
Net distributable income	57.4	54.6
Weighted average number of ordinary shares (m)	827.0	825.1
Gross distributable income per share (cents)	8.14	7.95
Net distributable income per share (cents)	6.94	6.62

— —▶ Net distributable income up by 5.0%

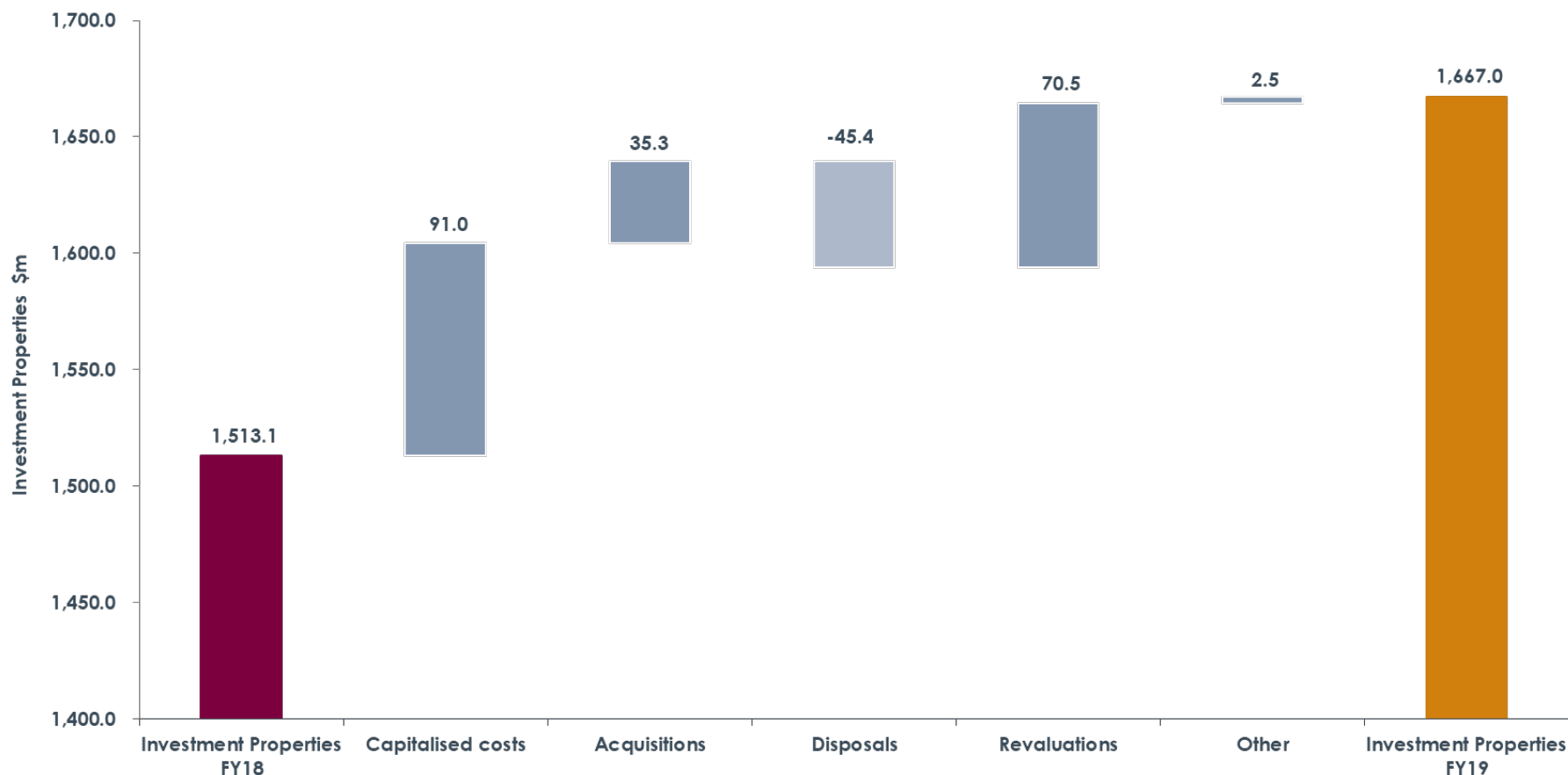
— —▶ Net distributable income per share up by 4.8%

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Investment Properties



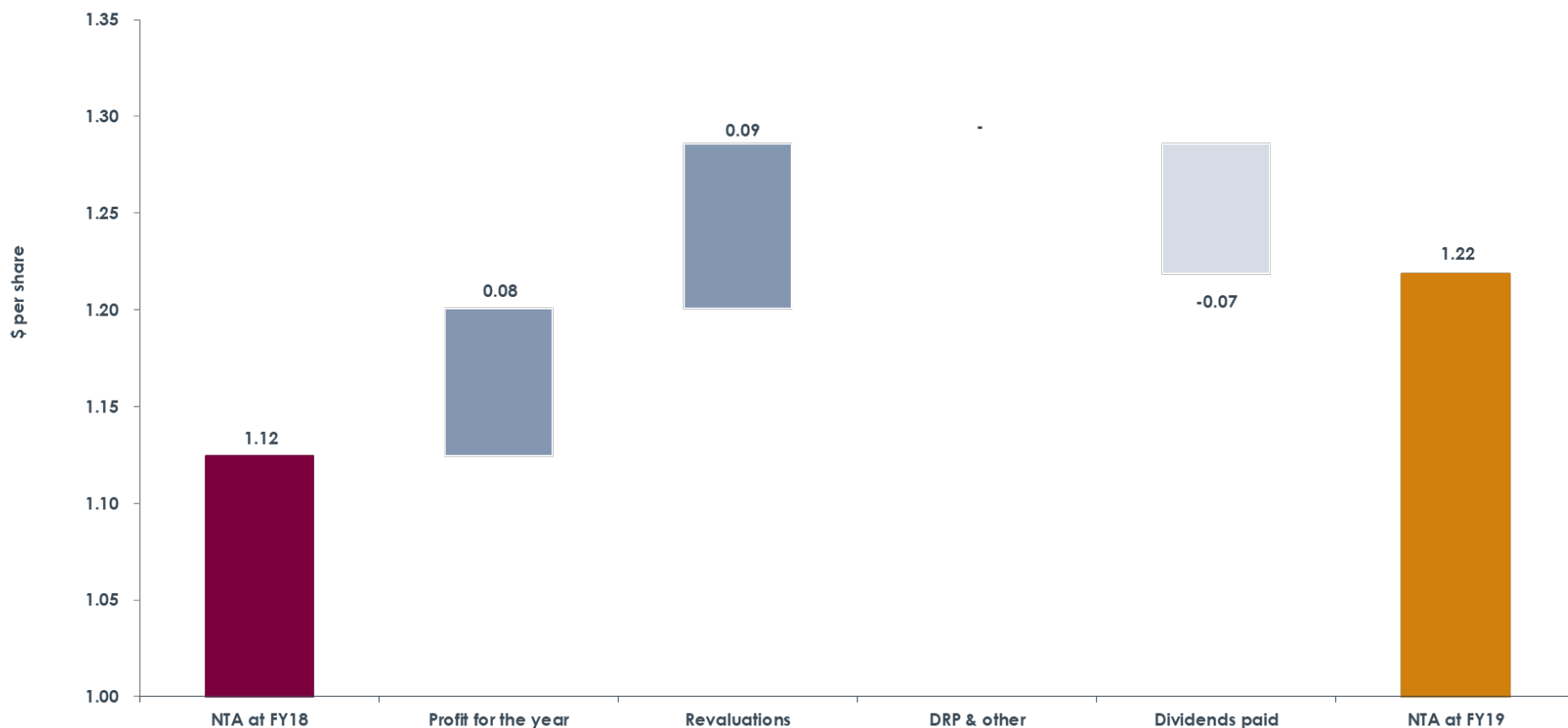
- Portfolio growth (+10%) driven by a combination of capital projects, acquisitions and revaluation gains.



Movement in NTA per share



▶ Full year revaluation gain key driver of ~9% NTA uplift to \$1.22.



Gearing

	FY19 \$m	FY18 \$m
Investment properties	1,667.0	1,513.1
Assets held for sale	0.0	27.4
Other assets	8.0	4.3
Total assets	1,675.1	1,544.8
Fixed rate green bonds	100.0	0.0
Bank debt (excl. capitalised borrowing costs)	496.2	554.2
Debt-to-total-assets ratio	35.6%	35.9%

- ▶ The sale of non Core assets totalled ~\$45m.
- ▶ The asset held for sale last year was Wagener Place, settled in Q2 of FY19.
- ▶ During the period Argosy diversified its long term debt funding and issued \$100m of 7 year senior secured fixed rate green bonds.
- ▶ Target policy gearing range remains between 30-40%.

35.6%

Debt-to-total-assets ratio

Funding & Interest Rate Management



	FY19	FY18
Weighted average duration of debt facilities	2.7 years	3.1 years
Weighted average interest rate ¹	4.75%	4.98%
Interest Cover Ratio	3.2x	3.3x
% of fixed rate borrowings	53%	62%
Average fixed interest rate ²	4.49%	4.56%

- ▶ Argosy maintains strong relationships with its banking partners ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited, and remains well within its banking covenants.
- ▶ In October 2018, Argosy added a further tranche of \$25m, expiring October 2020 (Tranche E).
- ▶ In March Argosy issued \$100m of 7 year senior secured fixed rate bonds. The coupon was set at 4.00% per annum.

2.7yrs

Weighted average facility term

¹ Including margin and line fees

² Excluding margin and line fees

Dividends



- ▶ A fourth quarter cash dividend of 1.5875 cents per share has been declared, with imputation credits of 0.3026 cents per share attached, and will be paid on 26 June 2019.
- ▶ The Board has signalled FY20 dividend guidance of 6.275 cents per share.
- ▶ The FY20 dividend reflects the Board's wish for shareholders to share in the continued strong results whilst allowing Argosy to maintain its momentum towards an AFFO based dividend policy.

6.275c

FY20 dividend guidance

26 June

4th quarter dividend paid

Leasing Update



Albany Mega Centre

Leasing Success



- ▶ Strong leasing results for the year have continued, delivering a WALT of 6.1 years.
- ▶ 44 lease transactions were completed on 81,274m² of net lettable area, including 21 new leases, 12 renewals and 11 extensions.
- ▶ Notable leasing successes include;

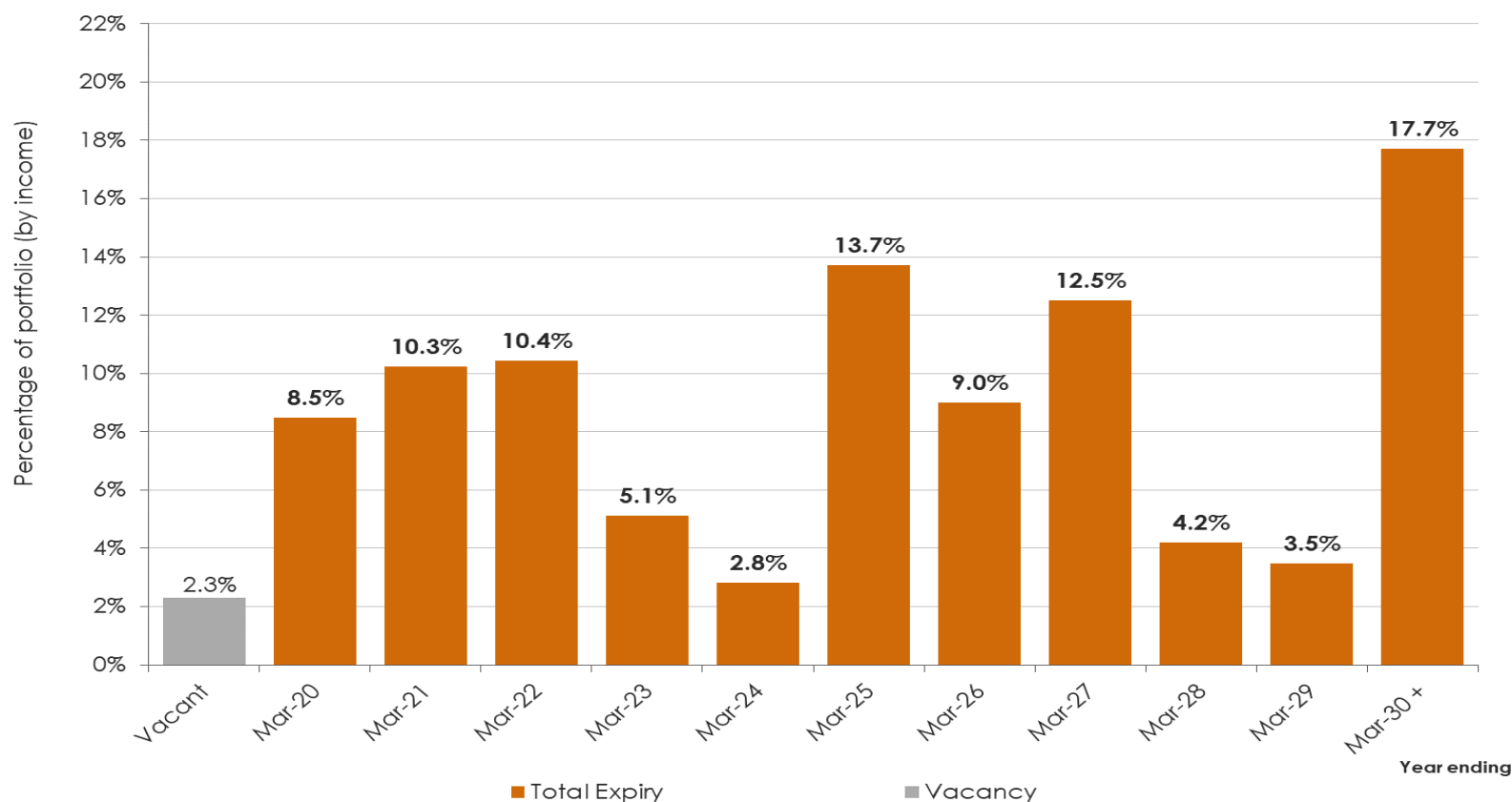
Property	Tenant	NLA (m ²)	Lease Term
107 Carlton Gore Road, Auckland	Housing New Zealand	6,100	12 years
320 Ti Rakau Drive, Auckland	Bunnings Limited	12,374	10 years
252 Dairy Flat, Auckland	Albany Toyota	2,261	10 years
147 Gracefield Road, Wellington	Winstone Wallboards	8,018	9 years
Albany Lifestyle Centre, Auckland	E Road Limited	1,690	9 years

- ▶ Some larger FY20 lease expiries to address include;

Property	Tenant	NLA (m ²)	Status
147 Lambton Quay, Wellington	MBIE	8,139	In discussions with tenant
23 Customs Street, Auckland	US Embassy	1,308	Renewed for further 10 years
Albany Mega Centre, Auckland	North Beach	1,085	Renewed for further 6 years

Lease Maturity

- ▶ Normalised lease maturity profile relatively stable over the medium term.
- ▶ Strong Crown interest in 7 Waterloo Quay space.



► Office

- Flexible working environments continue to drive a disconnect between employment growth and net absorption. This is expected to continue with recent transactions demonstrating a move to agile work environments.
- Rental growth impacted by new supply – softer in Auckland, reflected in higher incentives, and firmer in Wellington.
- The Wellington market continues to show strong demand, with low vacancy for good quality seismically sound space that is well located. There is a shortage of large floor plate/high quality stock with upward rental growth pressure as a result. Premium and Grade A vacancy is minimal.

► Industrial

- Steady economic growth driving occupier demand. Lower interest rates and offshore capital flows driving yields/cap rates lower.
- Continued low supply forecast with challenges around land supply and congestion in Auckland market.
- Land values are at historic highs.
- New rental benchmarks being set with each new phase as costs of supply increase (\$130-140m2 for prime warehouse).
- Vacancy at historic lows for both prime and secondary (< 2%).

► Retail

- Continued increase in online retailing is impacting discretionary retail.
- Generally a more negative retail spending outlook. Waning migration, increasing fuel prices and flat housing prices are providing headwinds.
- Support from increasing tourism has ebbed as this growth plateaus.
- Approximately 200,000m2 of retail space to be added by 2022.
- Large format retail expected to be most secure.

Looking Ahead



2020 Focus



Create

Proactive delivery of sustainable growth.

- ▶ Continue transitioning Value Add properties to drive earnings and capital growth.
- ▶ Ensure projects are completed on time and on budget.
- ▶ Keep investigating strategic acquisitions (off market or contiguous).

Manage

Manage all elements of our business to deliver the right outcomes for all our stakeholders.

- ▶ Maintain high tenant retention rates and address key expiries / vacancies.
- ▶ Leasing up of 7 Waterloo Quay.
- ▶ Ensure diversity of debt funding and increase tenor.
- ▶ Maintain transition towards AFFO based dividend policy.

Own

Own the right assets, with the right attributes in the right locations.

- ▶ Continue to invest in a diverse range of properties across sectors, locations and sizes.
- ▶ Maximise current attractive vendor market conditions.
- ▶ Investment activity focused on existing portfolio.



Adjusted Funds from Operations (AFFO)



	FY19 \$m	FY18 \$m
Profit before income tax	143.3	109.3
Revaluation gains	(70.5)	(47.3)
Derivative fair value (gain)/loss	7.4	4.1
Realised losses/(gains) on disposal	(6.1)	(0.3)
Earthquake expense net of recoveries	(6.8)	(0.2)
Gross distributable income	67.3	65.6
Depreciation recovered	1.7	0.6
Current tax expense	(11.7)	(11.6)
Net distributable income	57.4	54.6
Amortisation of tenant incentives and leasing costs	3.9	3.1
Funds from operations (FFO)	61.3	57.7
Capitalisation of tenant incentives and leasing costs	(6.5)	(2.8)
Maintenance capital expenditure	(4.6)	(5.3)
Tax effected maintenance capital expenditure recovered	1.5	0.2
Adjusted funds from operations (AFFO)	51.7	49.7
Weighted average number of shares on issue (m)	827.0	825.1
AFFO per share (cents)	6.25	6.03
Dividends paid in period	6.28	6.20
Dividend payout ratio (to AFFO)	100%	103%

Note: AFFO is an alternative performance measure used to assist investors in assessing the Company's underlying performance and to determine income available for distribution. This reconciliation is based on guidelines for disclosing AFFO as provided by the Property Council of Australia. Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not reflect exactly absolute figures.

Rent Reviews



Type	#	Previous Rent (\$000's)	New rent (\$000's)	Increase (\$000's)	% Increase	Annualised Increase (\$000's)	Annualised % Increase	% of rent reviewed
Total	103	39,378	40,959	1,581	4.0%	1,119	2.8%	100.0%

By review type

Fixed	49	16,637	17,148	511	3.1%	511	3.1%	42.2%
Market	24	11,462	12,205	743	6.5%	372	3.2%	29.1%
CPI	30	11,279	11,606	327	2.9%	236	2.1%	28.6%

By sector

Industrial	30	19,634	20,384	750	3.8%	612	3.1%	49.9%
Office	43	10,425	10,910	485	4.7%	279	2.7%	26.5%
Retail	30	9,319	9,665	346	3.7%	228	2.4%	23.7%

By location

Auckland	88	31,971	33,281	1,310	4.1%	896	2.8%	81.2%
Wellington	11	3,736	3,896	160	4.3%	112	3.0%	9.5%
Other	4	3,671	3,782	111	3.0%	111	3.0%	9.3%

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Rent Reviews



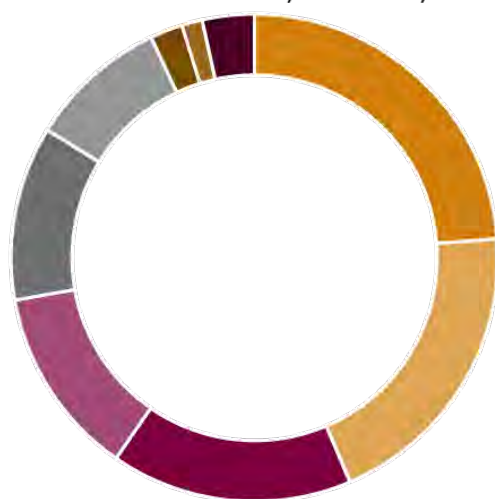
Location	#	Previous Rent (\$000's)	New rent (\$000's)	Increase (\$000's)	% Increase	Annualised Increase (\$000's)	Annualised % Increase	% of rent reviewed
Auckland								
Office	38	9,835	10,295	460	4.7%	267	2.7%	30.8%
Industrial	21	13,554	14,074	520	3.8%	417	3.1%	42.4%
Retail	29	8,583	8,913	331	3.9%	213	2.5%	26.8%
	88	31,971	33,282	1,311	4.9%	896	2.7%	93.3%
Wellington								
Office	5	591	616	25	4.3%	13	2.1%	15.8%
Industrial	6	3,146	3,281	135	4.3%	99	3.2%	84.2%
Retail	0	0	0	0	0.0%	0	0.0%	0.0%
	11	3,737	3,897	160	4.3%	112	3.0%	100.0%

Note: Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not exactly reflect the absolute figures.

Portfolio Metrics

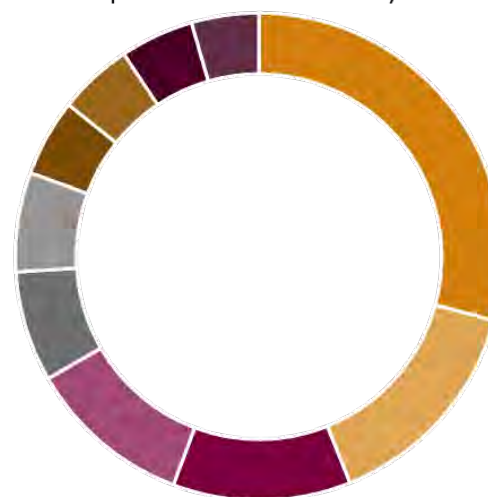
- ▶ The strength of our diversified portfolio is in the breadth and depth of our tenant base and sectors they represent.

Rent Roll by Industry



- Government Administration
- Retail
- Transport and Storage
- Manufacturing
- Property & Business Services
- Wholesale Trade
- Finance and Insurance
- Electricity, Gas and Water Supply
- All other

Top 10 Customers by Rent



- MBIE
- General Distributors Limited
- The Warehouse Limited
- Cardinal Logistics Limited
- New Zealand Post Limited
- Housing New Zealand Corporation
- Tonkin & Taylor Limited
- Mitre 10 (New Zealand) Limited
- Te Puni Kokiri
- Halls Logistics Limited

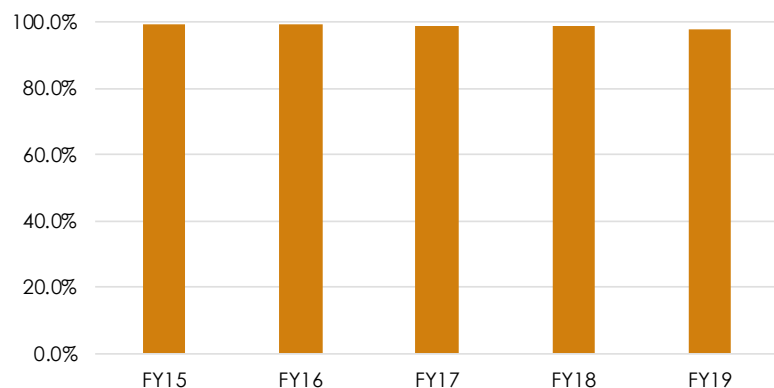
Note: Data as at 31 March 2019

Portfolio Snapshot

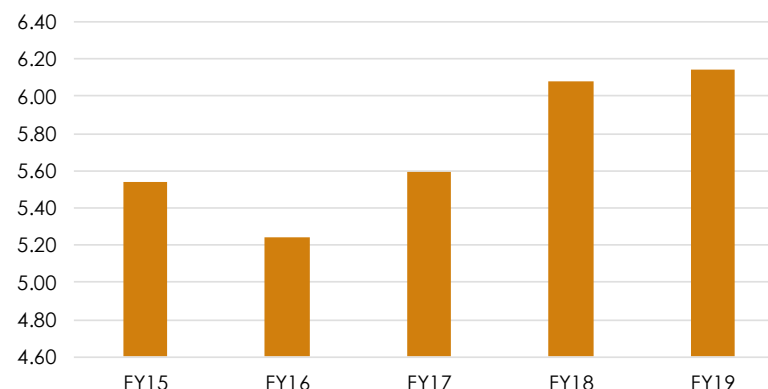


- ▶ Our focus is delivering improved portfolio quality and is reflected in our strong portfolio metrics

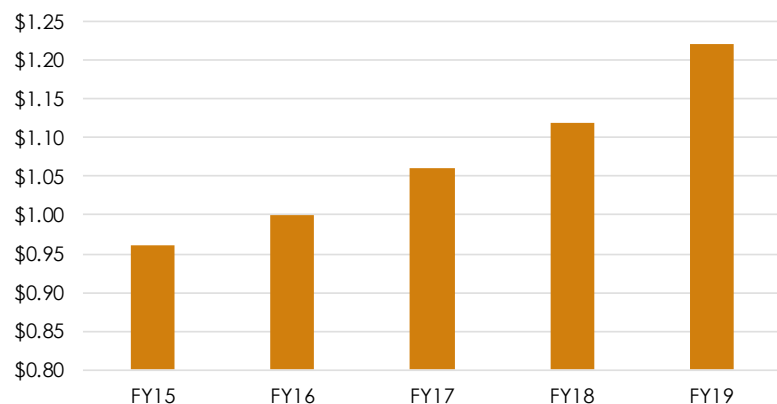
Occupancy



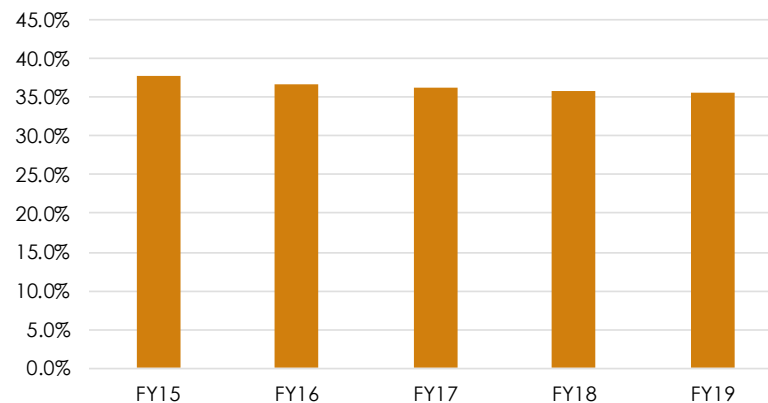
WALT (years)



Net Tangible Assets



Debt-to-total-assets



Disclaimer



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

23 May 2019