28 May 2015

MARKET RELEASE

ARGOSY ANNUAL RESULT

FOR THE YEAR ENDING 31 MARCH 2015

Argosy Property Limited ("Argosy" or the "Company") is pleased to report its results for the year ending 31 March 2015.

The 2015 financial year has been another successful year for Argosy. Through a combination of strategic asset management and prudent capital management, Argosy has continued to deliver on its strategy and produced another solid operating result.

Operating results have improved with increases in both net property income and gross distributable income. Portfolio metrics have been maintained at high levels with occupancy by rental at 99.2% and the weighted average lease term at 5.54 years, while the leasing profile continues to be well managed.

Total Shareholder Return was 34.5% for the 12 months to 31 March 2015 and ranked among the top three New Zealand listed property vehicles over the past year. Argosy outperformed both the NZ Property Gross Index and the NZX 50 Gross Index over the same time period.

Highlights:

- **Gross distributable income increased to 7.07 cents per share**
- **Net distributable income of 6.02 cents per share**
- **Net property income increased to $90.9 million**
- **Occupancy (by rental) increased to 99.2%**
- **Weighted average lease term at 5.54 years**
- **Acquisition of 5 quality industrial buildings in Wellington**
- **Divestment of non Core properties, including the Waitakere Mega Centre in Auckland**
- **Valuation gain of $38.6 million, up 3.0% on book values**

Financial Results

Profit before tax

Net property income for the year was $90.9 million (2014: $82.2 million), an increase of 10.5% due primarily to the extra income generated from acquisitions that took place over the last two years and the July commencement of a 12 year lease to the Ministry of Business, Innovation and Employment at Stout Street, Wellington.

Earnings before finance costs, property revaluations and tax was $83.0 million, an 11.0% increase on $74.8 million in 2014.

Interest expense has increased by $1.5 million compared to the previous period. However, after adjusting for capitalised interest of $1.3 million (2014: $2.3 million) relating to the development at Stout Street, gross interest expense was only $0.5 million more than the previous period. This increase reflects increased debt levels, partly offset by margin savings following the restructure of the Company's banking facilities in June 2014 and February 2015.

Profit before tax, after allowing for the non-cash impact of interest rate swaps and property revaluations, was $68.6 million, compared to $98.8 million for the previous period. The main reason for the decrease was due to the revaluation loss on interest rate swaps, which reflects lowering of the interest rate curve during the period.

Distributable income
Gross distributable income[1] for the year to 31 March 2015 was $56.3 million, a 13.6% increase on the prior year. However, while gross distributable income has increased, net distributable income has decreased from 6.69 cents per share to 6.02 cents per share as Argosy has returned to a tax paying position. It is particularly pleasing that Argosy has been able to earn above the 6 cents per share that is being paid out in dividends, a better result than we had forecast at the commencement of the year.

Capital Management

Current leverage
Argosy's debt levels, excluding capitalised borrowing costs, were 37.8% of total assets (31 March 2014: 36.5%). The debt-to-total-assets ratio is within the Company's targeted 35 to 40% gearing range.

Bank facility
Argosy restructured its syndicated bank facility in June 2014 and February 2015. Following the restructures, the expiry of the first tranche ($275 million) is 30 November 2017 and the second tranche ($275 million) is 30 November 2019. As a result of these restructures, Argosy is receiving further margin and line fee savings (after including upfront fees) of $0.9 million per annum.

Argosy continues to maintain strong relationships with its banking partners and remains well within all bank covenants.

Dividends
The Board is pleased to make a full year cash distribution of 6 cents per share which is in line with guidance. The final quarter dividend of 1.50 cents per share, with imputation credits of 0.2274 cents per share attached, will be paid to shareholders on 26 June 2015. The record date will be 12 June 2015. 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 Board can confirm that, based on current projections for the portfolio, a dividend of 6 cents per share is expected to continue for the year to 31 March 2016. It is expected that this will also be marginally less than net distributable income per share. While projections beyond that date are heavily dependent on the market and legislative environment, based on current conditions, it is expected that the dividend will increase from the 2017 financial year.

Portfolio activity

Leasing Environment
Expectations of rental growth remain in 2015 and this is being underpinned by strong leasing activity and low vacancy rates, especially in Auckland. Occupancy enquiry from potential tenants has continued to be solid and incentive levels have reduced.

Rental growth in Wellington has been constrained as the growth in net effective rents in high demand areas is being offset by stagnating or falling rents for similar stock in less desirable areas. Where net effective rents have increased, it has been more to do with falling insurance costs than an increase in achievable market rents.

Leasing
The management team has continued to focus on occupancy and near-term lease expiries with excellent results. Occupancy (by rental) has improved to 99.2% from 98.7% at 31 March 2014.

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[1] 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. Note 23 of the financial statements released today provides a full reconciliation between the profit before income tax and distributable income.

Outstanding lease expiries for the period to 31 March 2016 were 11.8% at 31 March 2015.

During the year 41 lease transactions were completed, including 19 new leases and 22 lease renewals and extensions. The weighted average lease term remains at a high level at 5.54 years at 31 March 2015, compared with 5.68 years at 31 March 2014.

Acquisitions

The property investment market is strong and there remains a large volume of capital seeking investment opportunities in an environment of limited supply and low interest rates.

As mentioned above, the office and industrial portfolios are a focus for the Company and key parts of Argosy's strategy. Therefore, it was pleasing to announce the acquisition of five industrial properties in Lower Hutt for $59.0 million in February 2015. The five properties were purchased at an initial passing yield of 8.18% and had a combined weighted average lease term of 5.19 years. This strategic acquisition has given Argosy its first presence in the Wellington industrial market which hasn't reached the price levels of the Auckland market, but still has good prospects for growth ahead.

Subsequent to the financial year end, Argosy acquired a vacant lot at 15 Unity Drive, Albany, Auckland for $3.1 million with a four year holding return of 6.75%.

Divestments

Another of Argosy's key strategies continues to be to divest vacant land and non Core assets in the near-term and we have continued to make steady progress on this strategy during the 2015 financial year.

In August 2014, Argosy announced the sale of the Waitakere Mega Centre in Henderson, Auckland, for $45.8 million. The sale settled in March 2015 and has helped Argosy reduce its retail holdings to 24% of the portfolio at year end, in line with strategy.

Subsequent to the financial year end, Argosy settled the sale of the property at 1 Allens Road, East Tamaki, Auckland for $3.3 million, which represented a 10.7% premium to its book value, as well 5,733 square metres of vacant land at the Manawatu Business Park for $563,000.

Argosy also entered into an unconditional agreement to dispose of the Porirua Mega Centre for $11.5 million, with settlement to take place in October 2015, and an agreement that is subject to title only for a further 5,000 square metres of vacant land at the Manawatu Business Park for $552,000.

Following these disposals, 5% of the portfolio is considered neither Core nor Value Add and will be divested in the future as market conditions allow.

Major projects

The redevelopment of the Stout Street building was successfully completed on time and was opened officially by the Honorable Steven Joyce in July 2014. The property was purchased for $33.2 million in July 2013 and had an upgrade cost of $46.6 million.

New Zealand Post House, Wellington continues to be redeveloped by Argosy. This building was purchased in March 2013 for $60 million and has an upgrade cost of $40 million. New Zealand Post and its subsidiary, Kiwibank, currently lease the building and will continue to do so throughout the course of the project. Argosy receives a return of 8% (quarterly in arrears) of its share of the development cost until completion, which is now expected to be late 2017.

Valuations

The Company is pleased to report that for the fifth year in succession the revaluation of the property portfolio has resulted in an increase in property values. The year-end increase was $13.7 million. This, combined with the half year revaluation gain of $24.9 million, has given a total revaluation gain of 3%, or $38.6 million (2013: $33.5 million). The Company's portfolio, following the revaluation and including vacant land, shows a passing yield on values of 7.58% and a yield on fully let market rentals of 7.55%.

Strategy

Our investment strategy remains unchanged. 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 to 85% of the portfolio by value. Core properties enjoy strong long-term demand (well located and generic), a leasing profile that provides for rental growth of at least CPI and good structural integrity with minimal maintenance capital expenditure required.

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.

More detail on Argosy's strategy can be found on pages 10 and 11 of the 2015 Annual Report that was released today.

Governance

At the Annual Meeting in August 2014, Andrew Evans and Mark Cross were re-elected as independent Directors and Trevor Scott, one of the Company's original directors, retired from the Board. At the date of this release, the Board comprises six Directors who are all independent.

Long Term Incentive Scheme

Subsequent to year end, the Board approved the implementation of a long term incentive scheme for its senior executives. The incentive scheme aligns closely with the Company's strategic objectives, which aim to provide an above average relative return to shareholders. Initially, the Chief Executive Officer and Chief Financial Officer have been invited, and have elected, to participate in the scheme.

Outlook

As we head into the 2016 financial year, the New Zealand economy is still reasonably robust, with forecasts of continuing good economic growth. The low interest rate and inflation environment is expected for the foreseeable future. The outlook for the New Zealand property market is similarly positive with rental growth being achieved along with good levels of enquiry for space.

The Company has a well diversified portfolio of good quality and well located properties and a clear investment strategy that enables us to make the most of current economic conditions.

The management team will continue to focus on the leasing fundamentals as well as positioning the portfolio for the future. Along with the continued focus on leasing, Management and the Board will continue to actively monitor the market and will pursue growth opportunities where these are consistent with the Company's investment strategy.

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Argosy Property Limited

Argosy Property Limited is one of the largest diversified property funds listed on the New Zealand Stock Exchange. It has a $1.3 billion portfolio of 68 properties across the retail, office 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.