Argosy

20 November 2019

MARKET RELEASE

ARGOSY FY20 INTERIM RESULT – DELIVERING A SUSTAINABLE PATHWAY

FOR THE 6 MONTHS TO 30 SEPTEMBER 2019

Argosy will present the 2020 interim results via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/argosy-10002733-invite.html or dial **0800 122 367** and quote the conference **ID 10002733**. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ("Argosy" or the "Company") has reported its results for the six months to 30 September 2019.

Highlights

- **Total shareholder return of 24.3% for the six month period;**
- **Net distributable income[1] up 3.2%;**
- **Net distributable income per share up 3.5%;**
- **A six month revaluation gain of $50.8 million, an increase of 3.1% on book value;**
- **Portfolio metrics in excellent shape with high occupancy and WALT maintained at 6.0 years;**
- **Lift in net tangible assets (NTA) to $1.28 from $1.22 at 31 March 2019;**
- **Full year dividend guidance of 6.275 cents per share reaffirmed.**

Argosy's Chief Executive Officer, Peter Mence said "We are pleased to have delivered on some of our key focus areas over the first six months of the 2020 financial year. The leasing progress at 7 Waterloo Quay has taken time but we currently have 82% of the building leased to high quality Crown tenants. Strong interest is being shown in the remaining floors. We also issued our second $100 million, 7 year green bond just after reporting date, although the work was done within the period. The bond issue continues to demonstrate our strategy of funding green developments with green financing. Following the bond issue, we have diversified our debt mix further and extended our tenor. The revaluation gain reported over the first half continues to reflect strong rental growth, a proactive management approach to our business and a generally buoyant real estate market. Our portfolio metrics remain solid. We will continue to deliver on our focus areas over the remainder of the financial year, including the residual leasing up of 7 Waterloo Quay."

Chairman Mike Smith said "The Board is pleased with the results for the first six months of the 2020 financial year. Shareholders received a total return over the six month period of 24.3% and a 4.9% increase in NTA to $1.28, underpinned by a 3.1% revaluation uplift of $50.8 million. The management team has continued to manage the business well through the combination of transitioning Value Add properties to drive earnings and capital growth, green developments, strategic divestments and solid operational results across leasing and rent reviews.

The focus on greening the portfolio will continue as these position Argosy very well for the long term. There are other green developments being considered for commencement, potentially in the next 12 months.

[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. The accompanying presentation released today provides a full reconciliation between profit before tax and distributable income.

Argosy's Create, Manage, Own strategic framework will continue to guide our overall long term goals, supported by our Investment Strategy and Investment Policy. Argosy remains focused on Creating a sustainable business, Managing the business for the benefit of all stakeholders and Owning the right assets in the right locations with the right attributes. This remains our simple message to shareholders and provides a sustainable pathway for the future.

After a strong start to 2020, the Board is pleased to reaffirm our expectations of a full year dividend of 6.275 cents per share for this financial year. This guidance reflects our ongoing belief that investors share in the continuing strength of the business. However, we are also cognisant that we must maintain our momentum towards an Adjusted Funds from Operations (AFFO) based dividend policy over the medium term."

Financial Results

Statement of Comprehensive Income

For the six months to 30 September, Argosy reported net property income of $51.0 million for the period, which includes rental loss recoveries from insurers, and is 0.5% higher than the previous interim period. Argosy has reclassified $1 million of property expenses to interest expense in accordance with NZ IFRS 16, which has been adopted for the first time. The adjustment relates to the ground lease at 39 Market Place, Viaduct Harbour, Auckland.

Administration expenses were up on the previous interim period primarily due to additional resourcing costs across the business.

Interest expense of $11.1 million was down on the previous interim period as the interest on higher average debt and the NZ IFRS 16 adjustment noted above was offset by interest rate savings and higher capitalised interest on developments.

The independent desktop valuations for the period to 30 September 2019 were performed by Colliers International ('Colliers'). The valuations demonstrated continued evidence of favourable market conditions since the 2019 full year revaluations. Underpinned by rental growth and general firming in capitalisation rates across the portfolio, Argosy reported a revaluation gain for the six month period of $50.8 million. The portfolio is 1.0% under-rented excluding market rentals on vacant space.

Net profit after tax was $76.9 million compared to $66.8 million in the previous interim period.

Distributable Income

For the six months ended 30 September 2019, gross distributable income was $34.3 million which was 2.5% higher than the previous interim period. Gross distributable income per share was 4.14 cents per share compared to 4.04 cents per share in the previous interim period, up 2.5%.

Net distributable income increased by 3.2% to $29.7 million compared to the previous interim period of $28.7 million. Net distributable income per share increased 3.5% to 3.59 cents per share from 3.47 cents per share in the previous interim period.

Valuations

The work performed by Colliers resulted in an interim revaluation uplift of $50.8 million, or a 3.1% increase on book values immediately prior to the revaluation. As a result of the revaluation gain, Argosy's NTA has increased to $1.28, 4.9% up from $1.22 at 31 March 2019. Following the revaluation, Argosy's portfolio shows a contract yield on values of 6.13% and a yield on fully let market rentals of 6.36%.

Portfolio Activity

Leasing and Rent Reviews

Argosy has commenced the FY20 financial year strongly with solid rent review and leasing activity across the portfolio. For the six months to 30 September Argosy completed 17 lease transactions across 47,800m^2 of net lettable area, including 8 rights of renewal, 6 new leases and 3 extensions. These leases accounted for $41.6 million in contract rent over the respective lease terms or $8.1 million on an annual basis.

Significant leasing transaction successes over the first six months include;

- Lease extension by 3 years (to December 2034) to Cardinal Logistics for 20,700m^2 and 17,700m^2 respectively;
- Lease renewal for 10 years to US Embassy for 1,300m^2;
- New 15 year lease to Big Chill Distribution for 1,885m^2;
- New 10 year lease to Oregon Group for 690m^2;
- New 8 year lease to North Beach Limited for 1,085m^2;
- New 6 year lease to Oxford Finance Limited for 501m^2;
- Lease renewal for 6 years to Kathmandu Limited for 899m^2;
- Lease renewal for 5 years to Hallenstein Bro's Limited for 525m^2;

Following the successful leasing activity over the first half of the FY20 financial year, Argosy's WALT at 30 September 2019 was maintained at a healthy 6.0 years (6.1 years at 31 March 2019). "We believe the combination of proactive portfolio management, a portfolio of quality assets and the lack of new inventory across all markets has allowed Argosy to deliver strong results for its tenants and shareholders" said Peter Mence.

Argosy has maintained a high occupancy rate of 97.6% versus 97.7% at 31 March 2019. Key vacancy areas Argosy remains focused on include 23 Customs Street (1,539m^2 across levels 6 & 7, part of 13), 99 Khyber Pass Road (1,522m^2 across ground floor and level 1 (part)) and 80 Springs Road (9,675m^2). There is interest across all these properties.

For the first six months of the financial year, Argosy completed a total of 50 rent reviews on $21.1 million of existing rental income. Rental growth of 4.0% was achieved or 3.0% on an annualised basis on all rents reviewed. The industrial portfolio accounted for 53% of the annualised rental uplift on 51% of the rent reviewed (16 reviews). The balance of the rental uplift saw the office portfolio account for 23% (19 reviews) and the retail portfolio 24% (15 reviews). For the six months to 30 September, approximately 59% of rents reviewed were subject to fixed reviews, 23% were market reviews and 18% were CPI based. Fixed reviews accounted for 67% of the total annualised rental uplift and Auckland accounted for 95% of the total annualised rental uplift.

Acquisitions and Value Add Developments
Over the first six months Argosy acquired a property at 54 Jamaica Drive, Grenada, Wellington for $3.5 million, which is currently leased to Big Chill with four years remaining on the lease. As announced previously, this property is adjacent to existing Argosy owned development land at 56 Jamaica Drive. With Big Chill's existing facilities at capacity, Argosy has commenced a development on the vacant land to support Big Chill's long term growth. The 54 Jamaica Drive acquisition delivers opportunity to add value to all three contiguous sites owned by Argosy, and is a good example of our Create strategy.

Subsequent to reporting date we acquired a property at 244 Puhinui Road, Mangere, which is contiguous to existing Argosy sites, for $12.4 million.

Value add developments

180-202 Hutt Road, Wellington - Placemakers
This project is another green development for Argosy, targeting a 4 Green Star Industrial Built rating. Stage 2 works, comprising the drive through warehouse and hardstand area, remain on track to be completed in December 2019. Argosy has previously indicated that as the various stages are completed, and subject to market demand, works will commence for additional bulk retail space on the vacant site of approximately 2,000m^2.

107 Carlton Gore Road, Auckland - Housing New Zealand Corporation (HCNZ)
This $12.0 million green project is on course for practical completion in December 2019. The scope of works was similar to that at 82 Wyndham Street (Auckland) and includes new lighting, air conditioning systems, seismic restraints, end of trip facilities (showers, changing facilities and bike parks) and lift replacement. HNZC has taken a new 12 year lease commencing 1 March 2020 for the entire 6,100m^2 of net lettable area. On completion, the building will be A Grade and we are targeting a minimum 4 Green Star Office Built rating with a seismic rating of 100% of NBS.

8-14 Willis Street, Wellington - Statistics New Zealand
In its largest green project to date at $64 million, Argosy is targeting a 6 Green Star Built rating and 5 Star NABERSNZ energy efficiency rating. The building will be a substantially new 11 level, 12,300m^2 building. The 15 year lease to Statistics New Zealand to occupy the entire building underpins the development's long term cashflows. The development is forecast for completion by April 2021.

Stewart Dawson Corner, Wellington
Following the resolution of some residual consent issues with the Council, Argosy is shortly expecting to confirm a lease with a major international retailer. The initial term is 5 years plus three, 5-year rights of renewal.

Peter Mence, Argosy Chief Executive Officer said "We have a number of exciting developments in progress across both our key Auckland and Wellington markets. A mix of international corporates and Crown organisations are key partners in these projects, and we are excited to be working with them all. Our developments are consistent with our Create strategy. The green developments in particular, deliver modern, functional and appealing workspace environments to all of our tenant's employees. Argosy will benefit from new, high quality tenants and modern buildings along with the long term cashflow certainty they bring. It is a real focus for Argosy to continue pursuing these green focused opportunities to improve overall portfolio quality and create incremental value for shareholders."

Divestment of non Core Assets
The low interest rate environment has continued to underpin strong property market fundamentals through the first six months of FY20. Both Auckland and Wellington markets are relatively buoyant.

While conditions remain attractive for vendors, Argosy did not settle any non Core assets during the period. The Albany Lifestyle Centre has now been transferred to held for sale and is on track to settle in March 2020. In November, Argosy entered into an unconditional agreement for the sale of 223 Kioreroa Road, Whangarei for $12.3 million. The sale price represents a 1.7% premium to its 30 September 2019 valuation and continues to support Argosy's strategy of reducing its regional exposures. Settlement is expected to occur on 12 December 2019 and the funds will initially be applied to reducing bank debt. At 30 September, Argosy had approximately $65.6 million[2] or 3.9% of its portfolio classified as non Core. Argosy will continue its divestment programme over the next 12-18 months to take advantage of current market conditions.

7 Waterloo Quay (7WQ), Wellington: Reinstatement Works and Leasing
Substantial progress has been made on the reinstatement and seismic works to the building. The reinstatement project is largely complete apart from some works to Level 12. These are expected to be completed this financial year. The seismic works programme was completed post reporting period with certification of 80% of NBS being achieved.

As previously announced to the market, Argosy has achieved the following leasing transactions for space at the building:

- *Ground Floor and Level 1: New Zealand Post*
  New Zealand Post will remain on the Ground Floor, and relocate from the four tower floors it presently occupies down to Level 1 toward the end of this year (4,430m^2 leased to New Zealand Post);
- *Levels 2 and 10: Department of Internal Affairs (DIA)*
  The DIA has entered into an initial 9-year lease for 4,130m^2. Lease commencement date 1 February 2020.
- *Level 3, 4 and 5: Kāinga Ora (formerly Housing New Zealand)*
  Kāinga Ora has entered into an initial 9-year, 3 months lease for 7,000m^2. Lease commencement date 1 March 2020.

Argosy has also recently concluded negotiations with the Ministry of Housing and Urban Development (HUD) for an initial 9-year, 1 month lease over 3,660m^2 on Levels 6, 7 and 8. The lease commencement date is 1 March 2020 resulting in the building now being 82% leased. There is strong interest from potential tenants for the remaining 3,650m^2 of space on Levels 9, 11 and 12.

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2 This number includes 223 Kioreroa Road, Whangarei.

7WQ Insurance Claim

The building sustained substantial damage in the 7.5 magnitude Kaikoura earthquake in November 2016. Soon after the earthquake independent engineers confirmed that the building remained structurally sound, but it suffered damage to fit out and services. As with many significant insurance claims for earthquake damage, there is debate with insurers over the extent of damage, the scope of repair works, the repair methodology and the extent of insurance cover. To support its claim, Argosy commissioned a comprehensive damage survey of 7 Waterloo Quay, detailed damage assessment reports, corresponding reinstatement scopes and a comprehensive reinstatement cost estimate. Argosy submitted these to insurers and is now addressing feedback received from insurers' consultants.

Argosy has submitted 11 interim claims in respect of material damage and business interruption to 31 July 2019;

- Claims for material damage (reinstatement works and claims assessment costs) undertaken have been submitted based on costs actually incurred. The total claimed from inception of the claim to 31 July 2019 is $45.3 million. These costs relate primarily to urgent reinstatement works required to make damaged levels of the building available for reoccupation (estimated at $49.5 million) and were not able to be agreed with insurers in advance. Further claims will be made in respect of reinstatement works as costs are incurred.

- Claims have been submitted to 31 July 2019 for business interruption costs (loss of rents, additional costs and claims preparation) totalling $15.0 million. The main component of this is loss of rents ($14.3 million) and no further claims in respect of loss of rents are expected.

- From inception of its claim to 30 September 2019 Argosy has received progress payments from insurers of $23.4 million (after a $4.9 million deductible) in relation to its interim claims. Of these, $10.8 million has been allocated to reinstatement of earthquake damage, $1.6 million to expense recoveries and $11.0 million to loss of rents.

Capital Management

At 30 September 2019, Argosy's debt-to-total-assets ratio, excluding capitalised borrowing costs, was 36.2% versus 35.6% at 31 March 2019. The ratio reflects the net impact of acquisitions and developments during the period, offset by revaluation gains. The ratio also excludes the lease liability and right of use asset at 39 Market Place of $41.8 million, recorded in the period for the first time under NZ IFRS 16.

During the period Argosy added to its existing syndicated bank facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and Hongkong and Shanghai Banking Corporation. A new $50 million Tranche (Tranche F) provided additional liquidity headroom above existing drawn down debt. The new facility is for a 2-year period to 8 October 2021.

In the first six months of FY20 Argosy also refinanced three Tranches of its existing syndicated bank facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and Hongkong and Shanghai Banking Corporation. Additionally, it has extended its syndicate to include Commonwealth Bank of Australia and Westpac New Zealand Limited. Tranches B, D and E have been refinanced and replaced with three new Tranches as follows:

- B1 - $100m for 2 years;
- B2 - $125m for 4 years; and
- B3 - $125m for 5 years.

In October 2019, Argosy successfully completed a second $100 million 7 year Green Bond offer. As a result, Argosy cancelled $100 million of bank facilities that were due to expire in October 2021. Following this cancellation, the company's total bank debt facility was $500 million ($550 million at 31 March 2019). The execution of the green bond and cancellation of part of the banking facilities has resulted in an increased debt tenor to 4.3 years at 31 October 2019. Argosy's target gearing band is unchanged at 30% to 40% and continues to provide flexibility depending on financial and property market conditions. Argosy remains well within all bank covenants and currently sits just above the middle of the target debt-to-total-assets band. At 30 September 2019, Argosy's weighted average interest rate was 4.35% versus 4.75% at 31 March 2019.

Dividends
Consistent with the first quarter, a second quarter dividend of 1.56875 cents per share has been declared for the September quarter with imputation credits of 0.26493 cents per share attached. The second quarter dividend will be paid to shareholders on 19 December 2019 and the record date will be 5 December 2019.

Argosy remains focused on delivering sustainable dividends to shareholders. Based on current projections for the portfolio, the Board has reaffirmed its previous guidance for a full year 2020 cash dividend of 6.275 cents per share as noted above. This forecast reflects our belief that shareholders continue to share in the positive operating results of the company and allows us to maintain our momentum towards an AFFO based dividend policy in the medium term.

Governance – ex Annual Meeting results and appointments
The Board changes signalled in 2018 continued throughout calendar 2019 with the appointment of two new Directors and the resignation of two Directors. This year Argosy held its AGM in August at the Stamford Plaza in Auckland. Argosy's Chairman Mike Smith and Chief Executive Officer Peter Mence both gave addresses on Argosy's performance for the 2019 financial year. At the meeting, Mike Smith and Peter Brook were re-elected onto the Board and Stuart McLauchlan, Chris Gudgeon and Mike Pohio were all elected to the Board.

Following the meeting, Rachel Winder was appointed as a director. Rachel has been involved in the property sector for over 20 years across a variety of roles including strategy, portfolio management, facilities management and development. Rachel is currently Head of Property Services for Westpac New Zealand Limited and holds an MBA from the University of Otago.

Outlook
Economic conditions since 31 March have not changed materially. The current domestic and global economic environments are demonstrating a degree of ongoing volatility and weakness. Over the next 12-24 months we expect to see the continuation of low interest rates and a lower inflation outlook, along with a continued positive environment for real estate pricing. Previous economic forecasts of 2.5% growth over the medium term now seem optimistic.

Lower migration, waning business confidence and tighter bank capital requirements will tighten financial conditions generally. Together with an economy with modest growth, the economic outlook over the medium term certainly needs careful navigation.

Argosy remains well positioned to weather the shifting economic conditions over the near to medium term. Its capital position has been diversified further and remains very sound. Argosy has a portfolio of high quality, diversified real estate properties. The focus on sustainability and continued greening of the portfolio at every opportunity is good for the environment and will be good for shareholders over the long term.

As Value Add properties are transitioned into higher quality properties, they will deliver added resilience, certainty and stability to Argosy's cashflows and earnings.

The focus on addressing key lease expiries within the portfolio and ensuring that the tenant retention rate remains high, remains unchanged. Argosy will continue to focus on delivering on its strategy to support the creation of long term value for shareholders.

– ENDS –

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