Argosy

Market Release

20 May 2020

ARGOSY FY20 ANNUAL RESULT – LOOKING THROUGH COVID-19

FOR THE 12 MONTHS TO 31 MARCH 2020

Argosy will present the 2020 annual result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10003722-invite.html or dial 0800 122 367 and quote the conference ID 10003722. 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 12 months to 31 March 2020.

FY20 key highlights include:

- Net distributable income up 3.8%;
- Net distributable income per share up 3.7%;
- Portfolio metrics in excellent shape with high occupancy (98.8%) and WALT (6.1yrs) maintained;
- Full year unrealised revaluation gain of $60 million, an increase of 3.5% on book value;
- Strong portfolio leasing outcomes, particularly in Wellington, with 7WQ now 82% leased to the Crown;
- Further debt diversification via a second successful $100 million 7 year green bond issuance;
- A lift in net tangible assets per share (NTA) to $1.30 from $1.22 at 31 March 2019;
- FY21 dividend guidance of 6.35 cents per share, reflecting continued sound delivery of strategy.

Argosy's Chief Executive Officer, Peter Mence said, "We are pleased to have delivered on our key focus areas in 2020, including strong leasing progress at 7WQ to high quality Crown tenants and further debt diversification with a second successful $100 million green bond issue. Ultimately however, we finished the year with a focus on Covid-19. The last few months have been incredibly tough for all our stakeholders including our staff, tenants and shareholders. We have been working extremely hard to ensure everyone we deal with remains as safe as possible. Whilst there is a lot of volatility and uncertainty in the market, we are confident in the resilience of our business and the quality of our diversified portfolio. We acknowledge that the effect of Covid-19 will be negative for the economy generally. However, we have strong relationships with tenants and will continue to work closely with them as we look through the near-term challenges. Since 31 March 2020 Argosy has provided some assistance to tenants to counter the impact of lockdowns associated with Covid-19. This assistance has primarily been via deferrals or rent abatements. Including the Albany Lifestyle Centre, Argosy has provided for approximately $2.8 million in rent abatements for April and May since year end, for tenants most in need. We remain focused on ensuring the sustainability of dividends to shareholders and we will update the market as the ongoing impact from Covid-19 unfolds through the year."

Chairman Mike Smith said, "The Board is pleased with the results for the 2020 financial year. The end of the financial year coincided with the world facing an unprecedented event with the emergence of Covid-19. The virus's impact has been severe on global economies and financial markets. Argosy's management team have done an excellent job and have continued to manage the business well through the crisis which continues today. Argosy's diversified portfolio by asset and tenant type sees it positioned to withstand the current market volatility.

The full quantum of the virus's impact may not be known for some time yet. However, we will continue to work hard to monitor, manage and mitigate its impact on the business.

Argosy's Create, Manage, Own strategic framework will continue to guide our overall long-term goals, together with Argosy's Investment Framework. The Board's message to stakeholders is to look through the near term challenges we are facing. There is significant opportunity, with our value add properties and development pipeline, to position Argosy well for the future. In the meantime, we continue to work with all our stakeholders to ensure we come through Covid-19 in good shape.

The Board recognises we start the 2021 financial year in challenging times. However, Argosy's business is resilient and supported by a sound capital and portfolio position. Accordingly, based on current projections for the portfolio, the Board is pleased to confirm our expectations of a full year dividend of 6.35 cents per share for the 2021 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 12 months to 31 March, Argosy reported net property income of $99.7 million for the period, 2.7% lower than the prior year. This was due to the impact of divestments, notably 31 El Prado Drive in Palmerston North, buildings withdrawn for development including 8-14 Willis Street and 107 Carlton Gore Road and the $2.9 million termination fee paid by New Zealand Post in the prior year.

Argosy has reclassified $2.1 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, Auckland.

Administration expenses were up slightly on the previous year primarily due to small increases across a range of areas including staffing costs, ground lease charges and NZ IFRS 16 depreciation.

Interest expense of $22.9 million is down on the previous year due to interest rate savings and higher capitalised interest on developments.

The valuations for the period to 31 March were performed by Colliers International, Jones Lang Lasalle, CBRE and Bayleys Real Estate. The total unrealised revaluation gain for the 12 months to 31 March 2020 was $60 million. The portfolio is 3.4% under-rented excluding market rent on vacant space.

Distributable Income

Net distributable income increased by 3.8% to $59.6 million compared to the previous year of $57.4 million. Net distributable income per share increased 3.7% to 7.20 cents per share from 6.94 cents per share in the previous year.

Valuations

The independent work performed by valuers resulted in an annual revaluation uplift of $60 million, or a 3.5% increase on book values immediately prior to the revaluation.

In the current year end valuations, independent valuers have made adjustments to rental and vacancy assumptions, particularly for properties which they consider to be the most affected by Covid-19[1] .

By location, Auckland was the largest contributor to the revaluation gain with $49.7 million or 83% of the total portfolio gain. By sector, Industrial again provided the greatest contribution at $53.4 million, up 6.8%. The Office portfolio increased $19.5 million, or 2.7% and Large Format Retail declined by $13.0 million or -6.5%.

[1] Please refer to Note 5 of the financial statements released today for more commentary on valuations.

As a result of the revaluation gain, Argosy's NTA has increased to $1.30, a 6.5% increase from $1.22 at 31 March 2019. Following the revaluation, Argosy's portfolio shows a contract yield on values of 6.11% and a yield on fully let market rentals of 6.41%.

Portfolio Activity

Leasing and Rent Reviews

Argosy's leasing and rent review activity across the first half of FY20 strengthened further over the back half of the year underpinned by robust property market fundamentals in Auckland and Wellington.

Argosy completed 36 leases across 107,617m² of NLA over the year. Leases were mixed between extensions (4), renewals (17) and new leases (15).

Significant leasing transaction successes over the financial year include;

- 7 Waterloo Quay, Department of Internal Affairs	9 years, 4,133m²
- 7 Waterloo Quay, Ministry of Housing & Urban Development	9.25 years, 3,675m²
- 7 Waterloo Quay, Kāinga Ora	9.25 years, 7,001m²
- Wiri sites, Cardinal Logistics	15 years, 43,916m²
- 54-56 Jamaica Drive, Wellington, Big Chill	15 years, 1,885m²
- Albany Mega Centre, North Beach	10 years, 1,085m²
- 32 Bell Ave, Auckland, Mainfreight	3 years, 8,139m²
- 99 Khyber Pass, Auckland, Interoperability Health	6 years, 646m²
- 99 Khyber Pass, Auckland, The Mind Lab Limited	4 years, 875m²
- Cnr Wakefield St, Wellington, BP Oil NZ	14 years, 2,026m²
- 23 Customs Street, Auckland, Stirling Anderson Limited	4 years, 229m²

Following the successful leasing activity in FY20, Argosy's WALT at 31 March 20 was again maintained above six years at 6.1 years (6.1 years at 31 March 2019). Vacancies at 23 Customs Street and 99 Khyber Pass existing at the half year have now been leased. Subsequent to year end the industrial property at 80 Springs Road, Auckland was also leased.

"We are pleased to have been able deliver results which see our WALT stay above six years. We believe our quality portfolio coupled with relatively low vacancy levels has allowed Argosy to deliver strong operational results. With a long WALT and a diversified portfolio, the business maintains a high degree of resilience and cashflow certainty." said Peter Mence.

As a result of this leasing activity, Argosy increased its occupancy rate to 98.8% from 97.7% at 31 March 2019.

For the year to 31 March 2020 Argosy completed 100 rent reviews achieving annualised rental growth of 2.7%. These reviews were achieved on rents totalling $43.5 million. On rents subject to review by sector, we achieved annualised rental growth of 2.9% on industrial rent reviews, 2.5% for office rent reviews and 2.6% for large format retail rent reviews.

For the 12 months to 31 March, 63% of rents reviewed were subject to fixed reviews, 12% were market reviews and 25% were CPI based. Fixed reviews accounted for 71% of the total annualised rental uplift and Auckland accounted for 91% of the total annualised rental uplift.

Acquisitions and Value Add Developments

During the 12 months to 31 March, Argosy acquired the following properties;

- 54 Jamaica Drive, Grenada, Wellington for $3.5 million, which is currently leased to Big Chill. 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 for Big Chill to support their long term growth;

- 244 Puhinui Road, Mangere, for $12.4 million. The site is contiguous to existing Argosy sites and is leased to Cardinal Logistics. The purchase of this site had been signalled in the prior year as part of a sale and leaseback agreement with Cardinal Logistics; and
- 224 Neilson Street, Onehunga for $32 million. The site comprises 34,965m^2 of land and 8,000m^2 of buildings and is currently occupied by Steelpipe Limited. The current lease expires in December 2022 with a break clause on 30 September 2020.

Peter Mence said, "All our acquisitions are considered for their long-term strategic benefits and whether we can add significant value for shareholders."

Value Add developments

107 Carlton Gore Road, Auckland – Kāinga Ora (formerly Housing New Zealand)

This green project completed in December 2019. The works included new lighting, air conditioning systems, seismic restraints, end of trip facilities (showers, changing facilities and bike parks) and lift replacement. Kāinga Ora has taken a new 12 year lease which commenced 1 March 2020 for the entire 6,061m^2 of net lettable area. The building is now A Grade and Argosy is targeting a minimum 4 Green Star Office Built rating with a seismic rating of 100% of NBS.

8-14 Willis Street and 360 Lambton Quay, Wellington

This project is one of Argosy's current green developments and the largest in the company's history. Argosy is targeting a 6 Green Star Built rating and 5 Star NABERSNZ energy efficiency rating. Willis Street and 360 Lambton Quay is expected to have an independent valuation of $138 million on completion. Due to Covid-19 and delays arising from the Alert Level lockdowns, the development is now forecast to complete in August 2021.

54-56 Jamaica Drive, Wellington

Argosy is progressing well with its $5.6 million development for Big Chill at 54-56 Jamaica Drive. The development supports Big Chill's growing business with practical completion now likely in August 2020.

Peter Mence said, "We are very pleased to see our Auckland project at 107 Carlton Gore Road completed on time and on budget. Our pre Covid-19 pipeline of Wellington projects were tracking to plan. However, due to the Alert Level lockdowns we now expect projects to complete around three to four months later than initially projected.

The Crown via its various departments is the cornerstone partner in most of these projects, providing a high degree of cashflow certainty. While it is too early to assess what the financial impact may be on the delayed projects at this time, we will update investors in due course as the Covid-19 restrictions ease.

Our developments are consistent with our Create strategy. The green developments in particular deliver modern, functional and appealing workspace environments to all our tenant's employees. Argosy will benefit from new, high quality tenants and modern buildings along with the long term sustainable cashflow 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 underpinned strong property market fundamentals through the financial year to 31 March. Prior to Covid-19, both Auckland and Wellington markets were relatively buoyant.

The second half of the financial year included the sale of 223 Kioreroa Road, Whangarei for $12.3 million, a 1.7% gain above its book value.

As previously disclosed on 27 March, Cook Property Group Limited, who nominated APF Nominee Limited as custodian for Augusta Property Fund, failed to settle the sale of the Albany Lifestyle Centre (ALC). On 20 April 2020, Argosy cancelled the contract for the sale and purchase of the ALC and the deposit of $4.525 million was forfeited to Argosy and will be recognised as distributable income in FY21. ALC remains for sale and Argosy has fielded good interest for the property.

7 Waterloo Quay (7WQ), update:

Reinstatement / seismic works and leasing

The reinstatement and seismic works to the building are largely complete. Final works under the reinstatement project are required for toilets, floor coverings and in ceiling services in Level 12. The seismic works are also complete except for the reinstatement of the Level 12 spandrels and the completion of works to the interchange. Certification of 80% of NBS has been achieved. These two projects are expected to be completed in the first half of this financial year. During the year, Argosy achieved the following leasing transactions for space in the building:

- **Ground Floor and Level 1: New Zealand Post**

New Zealand Post remains on the Ground Floor and has relocated from the four tower floors it previously occupied down to Level 1 (4,430m^2 leased to New Zealand Post).

- **Level 2 and 10: Department of Internal Affairs (DIA)**

The DIA now occupies Levels 2 and 10 on an initial 9-year lease for 4,133m^2. The lease commenced 1 February 2020.

- **Level 3, 4 and 5: Kāinga Ora (formerly Housing New Zealand)**

Kāinga Ora entered into an initial 9-year, 3 month lease for 7,001m^2. The lease commenced in March 2020.

- **Level 6, 7 and 8: Ministry of Housing and Urban Development (HUD)**

HUD entered into an initial 9-year 3 month lease over 3,675m^2. The lease commenced in March 2020.

These new leases mean that the building is now 82% leased. There is good interest from potential tenants for the remaining 3,650m^2 of space on Levels 9, 11 and 12.

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 internal fit out and services. As with many significant insurance claims for earthquake damage, there has been 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 comprehensive damage assessment reports, corresponding reinstatement scopes and a comprehensive reinstatement cost estimate.

Argosy continues to work with insurers towards resolution of its claim.

Argosy has submitted 14 interim claims in respect of material damage and business interruption to 31 March 2020.

- 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 March 2020 is $47.4 million. These costs relate primarily to urgent reinstatement works required to make damaged levels of the building available for reoccupation and were not able to be agreed with insurers in advance. Further claims will be made in respect of additional reinstatement works as costs are incurred.
- Claims have been submitted to 31 March 2020 for business interruption costs (loss of rents, additional costs and claims preparation) totalling $15.1 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 31 March 2020, Argosy has recognised payments from insurers of $23.4 million (after a $4.9 million deductible) in relation to its interim claims. Of these, $10.9 million has been

allocated to reinstatement of earthquake damage, $1.8 million to expense recoveries and $10.7 million to loss of rents.

Capital Management

At 31 March 2020, Argosy's debt-to-total-assets ratio, excluding capitalised borrowing costs, was 38.8% versus 35.6% at 31 March 2019. The ratio reflects the net impact of acquisitions and development activity 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. As noted earlier, the planned settlement of the ALC did not occur. Had the unconditional sale been completed, Argosy's debt-to-total-assets ratio would have been 36.0% at year end.

During the year Argosy added three new tranches to its existing syndicated bank facilities.

- A new $50 million Tranche (Tranche F), expiry 8 October 2021.
- A new $35 million Tranche (Tranche G), expiry 1 November 2021.
- A new $50 million Tranche (Tranche H), expiry 30 April 2022.

During 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 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 - $100 million for 2 years;
- B2 - $125 million for 4 years; and
- B3 - $125 million 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.

As at 31 March, the company's total bank debt facility was $585 million ($550 million at 31 March 2019). At 31 March Argosy's weighted average debt tenor, including bonds, was 3.6 years (2.7 years at 31 March 2019).

Argosy's target gearing band is unchanged at 30-40% and continues to provide flexibility depending on financial and property market conditions. Argosy remains well within all bank covenants and currently sits within the target debt-to-total-assets band. As at 31 March, Argosy had approximately $140.6 million or 7.5% (across four assets) of its portfolio classified as non Core. Argosy is targeting the divestment of these assets, including the ALC, in FY21. Successful divestment of these properties at book value would reduce pro forma gearing by approximately 5%.

At 31 March 2020, Argosy's weighted average interest rate was 3.95% from 4.75% at 31 March 2019.

Subsequent to year end, Argosy added a new banking facility, Tranche I, for $75 million. This new Tranche expires in May 2024.

Dividends

A fourth quarter dividend of 1.5875 cents per share has been declared for the June quarter with nil imputation credits attached. The fourth quarter dividend will be paid to shareholders on 24 June 2020 and the record date will be 10 June 2020. Argosy has re-opened its Dividend Reinvestment Plan (DRP) and it will be available for shareholders to participate in for the fourth quarter dividend.

Despite the impacts of Covid-19, Argosy remains focused on delivering sustainable dividends to shareholders. The effect of Covid-19 will be negative for the economy generally and Argosy will not be immune. Management is working hard to minimise the impact on Argosy's business. Through the strong execution and delivery of strategy, Argosy's business is highly resilient, underpinned by a quality portfolio of diversified property.

Accordingly, based on current projections for the portfolio, the Board is guiding to a full year 2021 cash dividend of 6.35 cents per share. This guidance reflects that despite the current challenges, the Boards view is that shareholders should continue to share in the positive operating results of the company. Importantly, the FY21 dividend allows Argosy to maintain its momentum towards an AFFO based dividend policy in the medium term.

Governance

The Annual Meeting of Shareholders this year will be held at 2pm on 28 July as a hybrid meeting. We have taken this approach due to the Covid-19 situation and our desire to ensure the health and safety of all stakeholders.

The Board refresh process signalled 18 months ago is now complete and sees Argosy commence FY21 with a solid governance foundation to take the company forward.

Rachel Winder and Martin Stearne, who were appointed during the year, will retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election. As previously announced, Michael Smith and Peter Brook will retire at the 2020 Annual Meeting and will not stand for re-election. Both Mike and Peter have been on the Argosy Board since 2002 and have served the company with great distinction over the last 18 years.

Outlook

Argosy ended FY20 with strong momentum. However, economic conditions since 31 March have changed significantly. Covid-19 has delivered major challenges to the domestic and global economies. We expect to see further weakness and volatility over the next 12-18 months as the world and New Zealand find their way through this epidemic. Higher unemployment levels and low consumer and business confidence will all take time to turn around. Pleasingly, banks are open for business with no issues to Argosy accessing capital to secure opportunities if required. Whilst a lower interest rate environment and the re-introduction of depreciation on buildings is a positive for Argosy, economic conditions will be negatively affected, creating headwinds that will require careful navigation.

Notwithstanding these issues, the Board's focus and message to shareholders is about looking through the short-term challenges, to the medium and longer term. Argosy remains well positioned. It has a sound and diversified capital position. Its diverse portfolio of quality investment properties has a broad tenant composition providing added resilience and stability to its cashflows.

Looking ahead through the next 12-18 months, the focus on addressing residual expiries within the portfolio and ensuring that the tenant retention rate remains high, is unchanged. Argosy will continue to focus on sustainability and green developments and on transitioning Value Add properties into higher quality ones, to drive earnings and capital growth. This emphasis will continue Argosy's momentum towards creating further incremental value and sustainable dividends for shareholders.

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ENQUIRIES

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