



Argosy

Interim Results Presentation

Argosy Property Limited
21 November 2017

▶ www.argosy.co.nz

▶ www.argosy.co.nz

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PRESENTED BY:

Peter Mence CEO



Dave Fraser CFO



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



Our strength lies in the diversity of our properties across sectors, grades, sizes and locations allowing us to adapt to the changing needs of our growing family of tenants.

Peter Mence
CEO

HIGHLIGHTS

Argosy



HIGHLIGHTS

Portfolio quality and metrics improved over first six months of FY18

82 Wyndham St. development completed, others on track

\$48.5m

Net property income

3.23c

Net Distributable Income per share

1.55c

2nd Qtr Dividend (+1.6%)

\$1.06

Net Tangible Assets per Share

2.8%

Annualised rent review increase

98.1%

Occupancy (by rental)

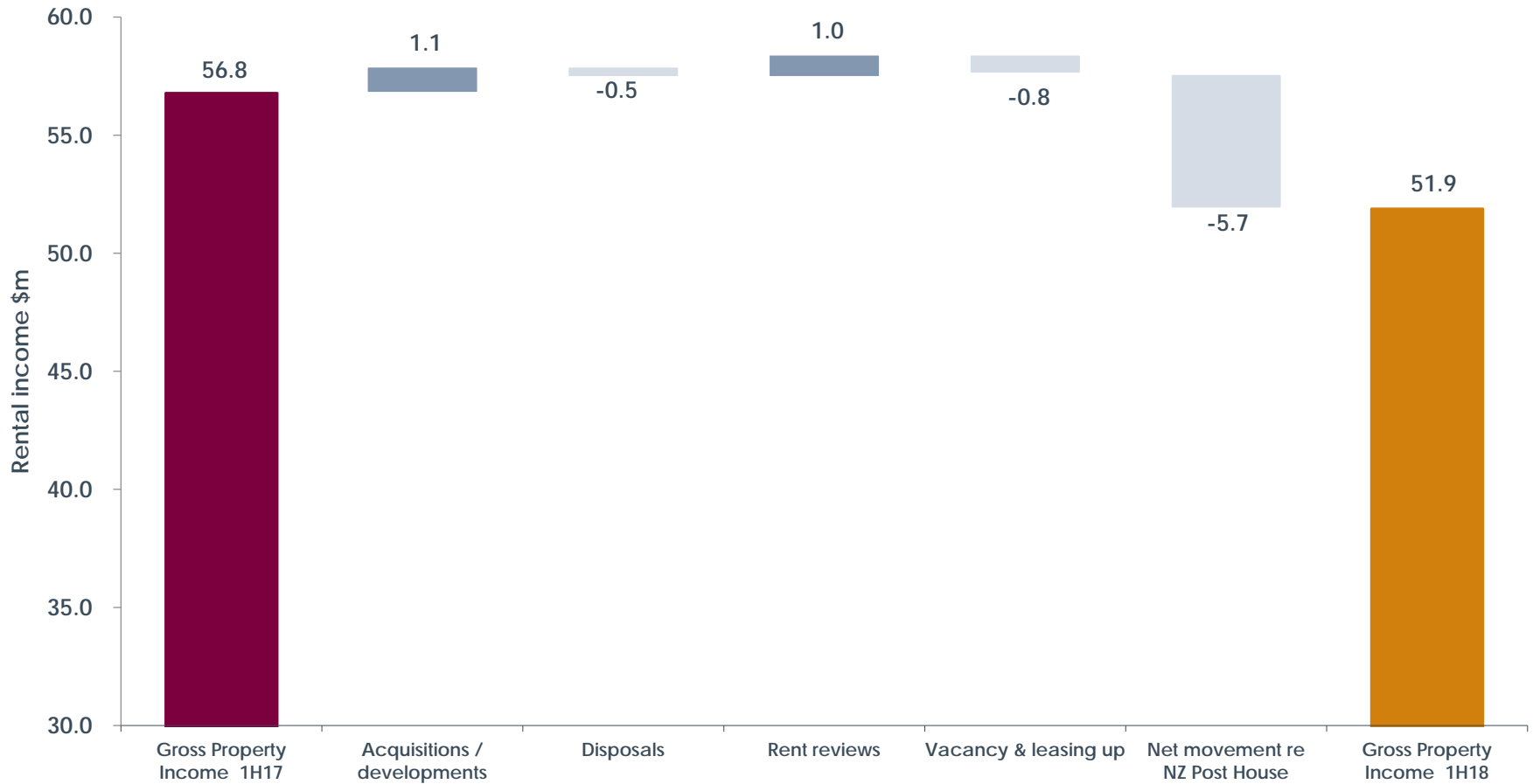
5.6 years

Weighted Average Lease Term

FINANCIALS



Income Reconciliation



Financial Performance



	1H18	1H17
	\$m	\$m
Net property income	48.5	53.7
Administration expenses	(4.7)	(4.6)
Profit before financial income/(expenses), other gains/(losses) and tax	43.8	49.1
Interest expense	(12.6)	(13.0)
Gain/(loss) on derivatives	(2.6)	(9.7)
Finance income	0.0	0.0
	(15.2)	(22.7)
Revaluation gains	-	35.8
Realised gains/(losses) on disposal	0.1	(0.0)
Net: Insurance proceeds & earthquake expense	(1.3)	-
Profit before tax	27.4	62.2
Taxation expense	(4.0)	(6.0)
Profit after tax	23.4	56.2
Basic and diluted earnings per share (cents)	2.84	6.90

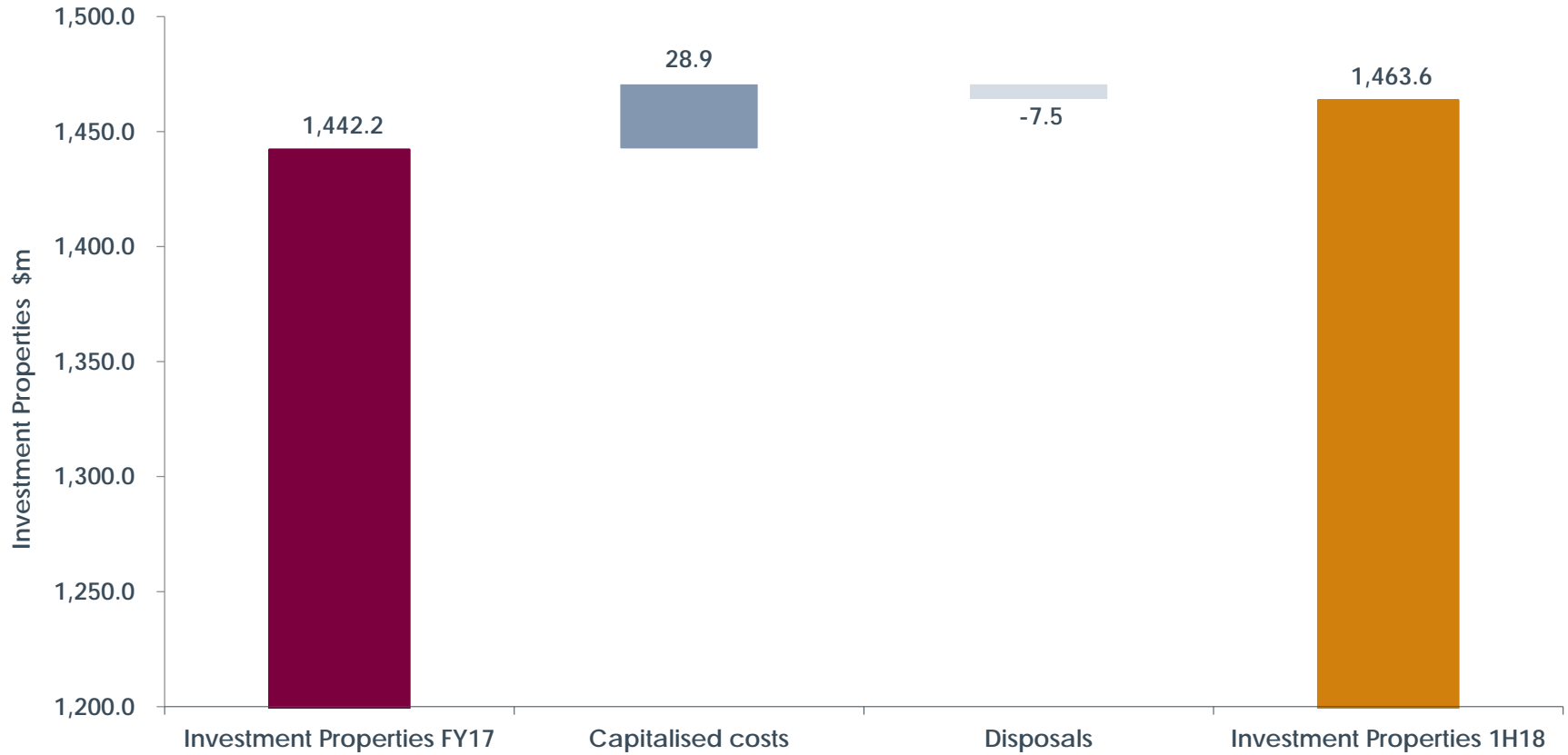
Distributable Income



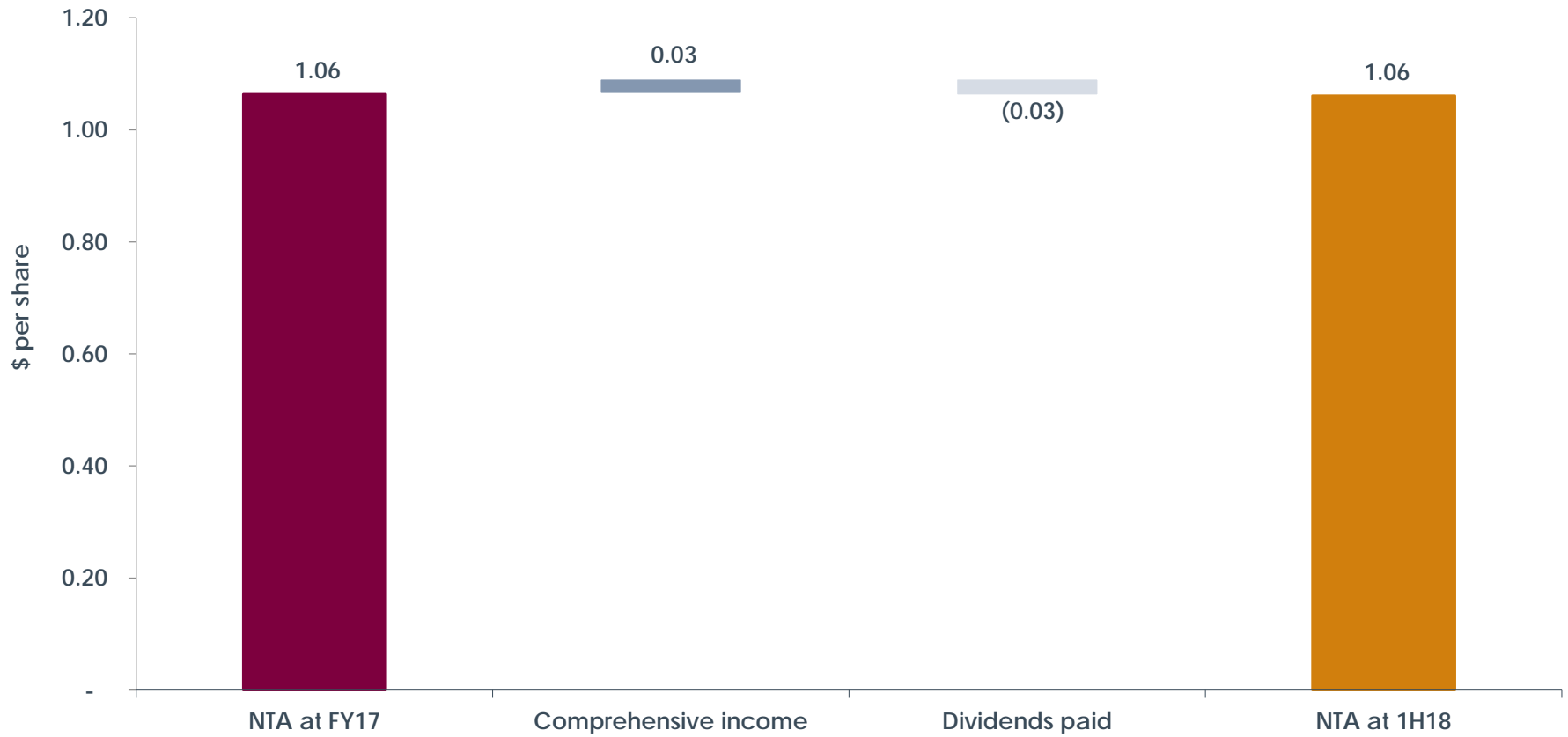
	1H18 \$m	1H17 \$m
Profit before income tax	27.4	62.2
Adjusted for:		
Revaluations gains	-	(35.8)
Realised losses/(gains) on disposal	(0.1)	0.0
Derivative fair value loss/(gain)	2.6	9.7
Earthquake expense net of recoveries	1.3	0.0
Gross distributable income	31.2	36.1
Depreciation recovered	0.4	-
Current tax expense ¹	(5.0)	(7.0)
Net distributable income	26.6	29.1
Weighted average number of ordinary shares (m)	823.6	813.8
Gross distributable income per share (cents)	3.79	4.44
Net distributable income per share (cents)	3.23	3.58

¹ Under the amended bank facility agreement, tax paid has changed to current tax expense in line with the rest of the sector.

Investment Properties



Movement in NTA per share



Gearing / Capital Structure

	1H18 \$m	FY17 \$m
Investment properties	1,463.6	1,442.2
Assets held for sale	0.0	13.0
Other assets	5.7	3.4
Total assets	1,469.3	1,458.6
Bank debt (excl. capitalised borrowing costs)	540.6	529.8
Debt-to-total-assets ratio	36.8%	36.3%

- ▶ Argosy remains at the bottom end of the medium term policy gearing range of between 35 to 40%.



36.8%

Debt-to-total assets ratio

Funding & Interest Rate Management

	1H18 \$m	FY17 \$m
Weighted average duration of bank facility	3.6 years	2.5 years
Weighted average interest rate ¹	5.04%	4.88%
Interest Cover Ratio	3.2x	3.4x
% of fixed rate borrowings	64%	65%
Average fixed interest rate	4.56%	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.
- ▶ Argosy restructured its syndicated bank facility in May 2017. At 30 September 2017 the weighted average debt expiry was 3.6 years providing medium term funding certainty.



¹ Including margin and line fees

- ▶ The second quarter cash dividend of 1.55 cents per share has been declared, with imputation credits of 0.32720 cents per share attached, and will be paid on 20 December 2017.
- ▶ The FY18 dividend guidance of 6.20 cents per share remains unchanged, an increase of 1.6% on the previous year.
- ▶ Argosy intends to move to an amended dividend policy, based on AFFO earnings, in the medium term.
- ▶ The Board expects, based on current projections, that the cash dividend will be at least maintained over the transition period.

6.20c

FY18 dividend guidance

20 Dec

2nd quarter dividend payment

Strategy Overview



Argosy will continue to invest in a diverse range of properties across sectors, grades, sizes and locations.

Our Investment Strategy consists of Core and Value Add properties. Parameters for these are;

- ▶ Core properties between 75-90% of the portfolio by value.
 - ▶ Value add properties between 10-15% of the portfolio by value.
-

Our Investment Policy sector band parameters (by value) are:

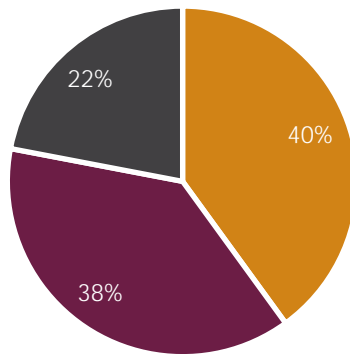
- ▶ Industrial 40-50%
- ▶ Office 30-40%
- ▶ Retail 15-25%

As at 30 September 2017, Argosy was operating within the parameters of its Investment Policy.

Argosy strives to deliver reliable and sustainable returns to shareholders. We take a considered approach to acquisition, divestment, development, leasing and capital management decisions, reflecting our proposition to shareholders as a dividend stock, with all the advantages of the PIE Regime.

Portfolio at a glance

TOTAL PORTFOLIO VALUE
BY SECTOR

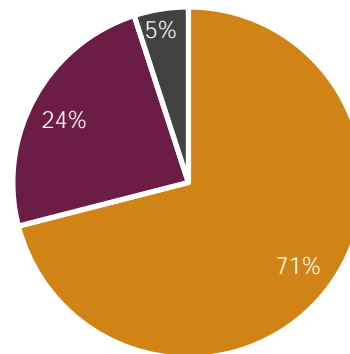


■ Industrial

■ Office

■ Retail

TOTAL PORTFOLIO VALUE
BY REGION

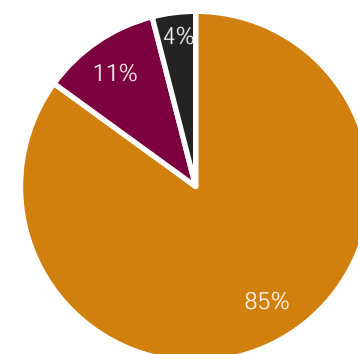


■ Auckland

■ Wellington

■ Regional North Island &
South Island

PORTFOLIO MIX
BY VALUE



■ Core properties

■ Value Add properties

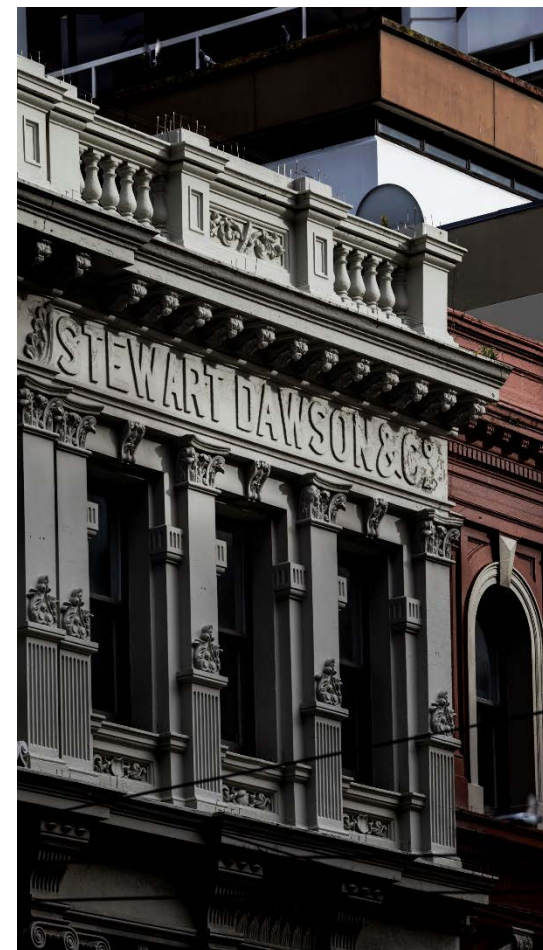
■ Properties and land to divest

Value Add

The following properties have been designated as Value Add, which make up 11% of the total portfolio:

Property	Sector	Location	Book Value ¹ \$m
90 - 104 Springs Road	Industrial	Auckland	4.1
80 Springs Road	Industrial	Auckland	9.6
211 Albany Highway	Industrial	Auckland	15.8
8 Foundry Drive	Industrial	Christchurch	13.0
960 Great South Road	Industrial	Auckland	6.1
Highgate, Silverdale	Industrial	Auckland	20.2
99-107 Khyber Pass Road	Office	Auckland	8.1
8-14 Willis Street	Office	Wellington	15.2
82 Wyndham Street	Office	Auckland	38.2
180-202 Hutt Road	Retail	Wellington	8.6
Stewart Dawsons Cnr	Retail	Wellington	15.5
TOTAL \$m (excl. land)			154.4
56 Jamaica Drive	Land	Wellington	1.1
15 Unity Drive	Land	Auckland	4.1
246 Puhinui Road	Land	Auckland	3.1
TOTAL \$m			162.7

¹ At 30 September 2017



Industrial

NUMBER OF BUILDINGS

37

MARKET VALUE OF ASSETS (\$M)

\$588.0

OCCUPANCY (BY INCOME)

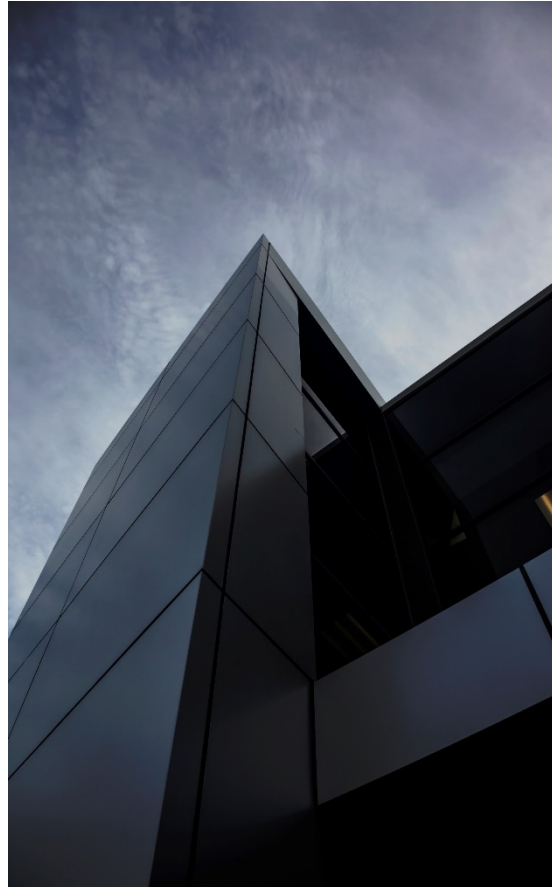
100%

WALT (YEARS)

6.6

PASSING YIELD

7.2%



Office

NUMBER OF BUILDINGS

17

MARKET VALUE OF ASSETS (\$M)

\$560.6

OCCUPANCY (BY INCOME)

96.3%

WALT (YEARS)

4.5

PASSING YIELD

7.3%



Retail

NUMBER OF BUILDINGS

9

MARKET VALUE OF ASSETS (\$M)

\$315.0

OCCUPANCY (BY INCOME)

98.4%

WALT (YEARS)

5.5

PASSING YIELD

7.4%



Tenant-led Developments



Development	Type	Location	Total Cost \$m	Spent to 30-Sep \$m	FY 2018		FY 2019	
					Sep-17	Mar-18	Sep-18	Mar-19
Foundry Drive	IND	CHC	7.5	7.5	Substantially complete			
82 Wyndham	OFF	AKL	9.0	7.5	Substantially complete			
Mighty Ape ¹	IND	AKL	24.7	17.4	Dec-17			
Snickel Lane	OFF	AKL	7.5	6.6	Early -18			
180-202 Hutt Rd	IND	WTN	9.4	0.4	Late -18			
TOTAL			58.1	39.4				

- ▶ Polarcold Stores Limited is fully utilising the entire space at Foundry Drive on a 12 year lease.
- ▶ 82 Wyndham has been transformed with a 4 Star Office Built Green Star rating and a 4 Star NabersNZ energy efficient rating being targeted.
- ▶ Significant leasing progress has been made at Snickel Lane with an exciting mix of retailers for space in the laneway.
- ▶ 180-202 Hutt Rd - Placemakers have a new nine-year lease on of the property following completion.

¹ Includes purchase of land for \$8.1m in Dec 2016.

Mighty Ape Green Star Project

Mighty Ape, Highgate Business Park, Silverdale - Auckland

- ▶ \$24.7m development including \$8.1m cost of land
- ▶ Joint partnership with tenant with shared philosophy
- ▶ Raft of energy saving systems incorporated including electricity / water metering and recording, LED lighting systems and water harvesting
- ▶ 22,575sqm of land, 10,500sqm of net lettable space (9,000sqm warehouse, 1,500sqm office over two levels, 116 onsite carpark)
- ▶ December 2017 completion, 10 year WALT



7 Waterloo Quay (NZ Post)

- ▶ Damage Assessment
 - ▶ Cost unlikely to be higher than \$50m per initial estimate.
 - ▶ Working hard to complete damage assessment and progress claim.

- ▶ Insurance Claim
 - ▶ Received \$4m on an unallocated basis.
 - ▶ Total claim to 30 September was \$8.7m with a \$4.8m deductible applied.

- ▶ Leasing / Reinstatement
 - ▶ Reinstatement work on Levels 1-4 & 7 has commenced with Levels 10-12 to follow.
 - ▶ We expect strong demand for Levels 10-12 prior to completion.

Leasing Update



Leasing Success

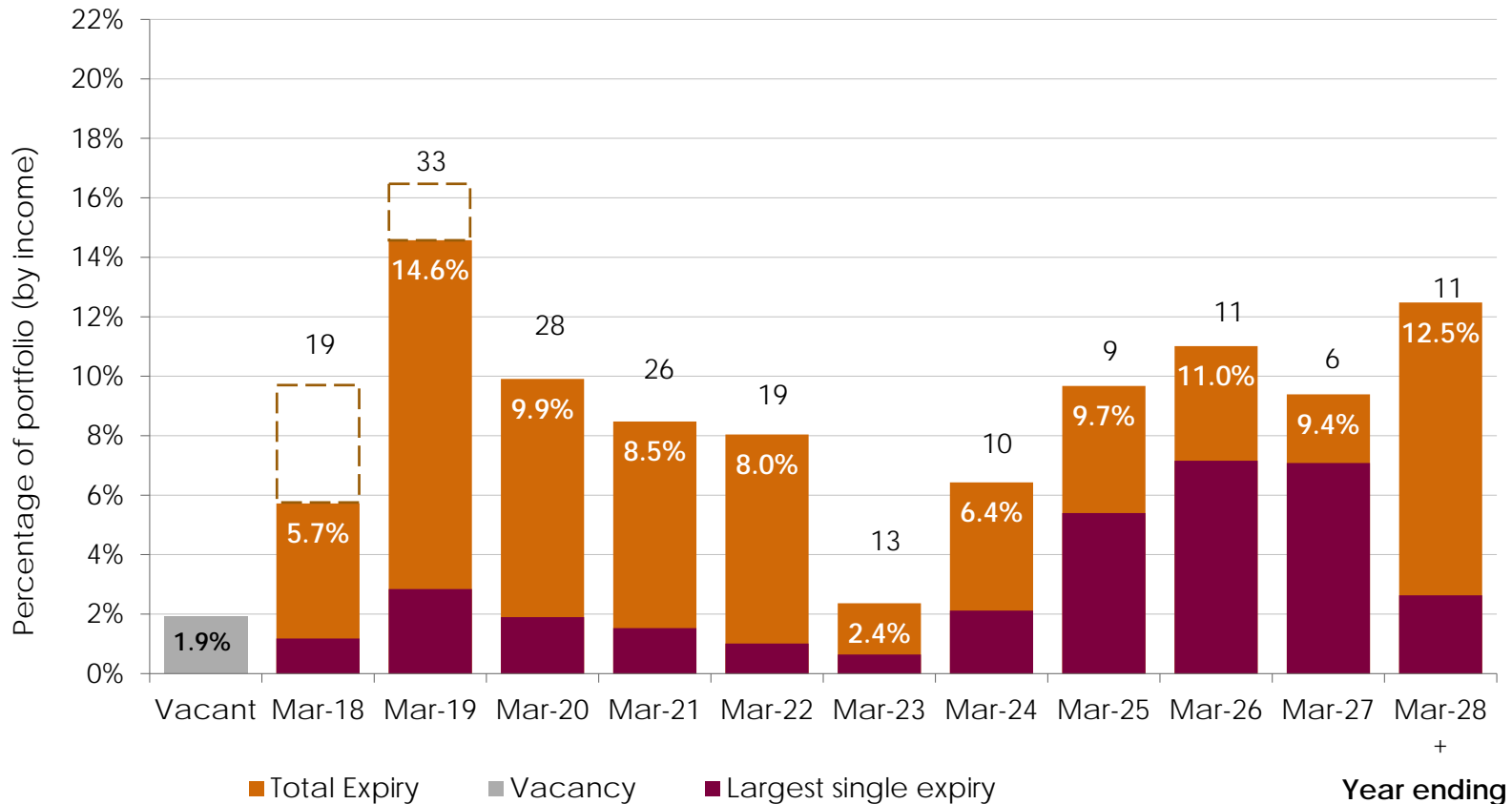
- ▶ Strong first six months with lease activity.
- ▶ During the period Argosy has completed 22 leasing transactions totalling ~61,000m² of NLA.
- ▶ Notable leasing successes during include:

Property	Tenant	NLA (sqm)	Lease Term
1 Rothwell Avenue, Albany	New Zealand Couriers Limited	12,737	12 years
180-202 Hutt Road, Kaiwharawhara	Placemakers	6,019	9 years
9 Ride Way, Albany	Ancor Flexibles (New Zealand) Limited	9,178	6 years
Albany Lifestyle Centre, Albany	Danske Mobler Limited	1,785	6 years
Citibank Centre	Citibank Group	689	3 years

- ▶ Some larger remaining FY18 lease expiries include:

Property	Tenant	NLA (sqm)	Status
211 Albany Highway, Albany	Visypet (NZ) Limited	15,651	5 year renewal agreed
80 Springs Road, East Tamaki	Coda GP Limited	9,675	Extension to 31-Aug-18
12-16 Bell Avenue, Mt Wellington	Mainfreight Limited	5,046	In discussion with tenant for extension

Lease Maturity



Note: 1. The number above each bar denotes the total tenant expiries per year (excluding monthly carparks and tenants with multiple leases within one property).
 2. Dotted spaces above Mar-18 and Mar-19 denote movement from March 2017.

- ▶ Solid domestic economic growth remains, and this is driving steady net absorption. There are few catalysts for change in the near term.
- ▶ The mixture of a steady economy and advancing technology supporting demand for industrial assets.
- ▶ Continued growth of online retailing bringing challenges to the traditional retail space, expected to limit future sales growth.
- ▶ Growth in Auckland office supply is yet to cause concern, however previous projections for increased vacancy around 2020 are unchanged.
- ▶ Wellington office vacancy continues to reduce with rental growth resulting.
- ▶ Tougher lending conditions continue to impact developers. This will create potential opportunities.
- ▶ An end to the yield firming, increased construction costs, solid net absorption and fewer developers are all positive factors for rental growth.

Outlook

Argosy



- ▶ Fundamental real estate drivers remain sound.
- ▶ Despite ongoing global unpredictability, New Zealand remains solid with good economic growth and a positive property market outlook is expected to continue.
- ▶ Argosy's diversified portfolio allows it to make the most of buoyant current market conditions.
- ▶ Argosy will continue to focus on resolving near term expiries, maintaining high tenant retention rates and ensuring core portfolio metrics remain strong.
- ▶ Key activities expected to continue to be dominated by opportunities generated from within the portfolio (existing tenants / existing property)
- ▶ We will continue to deliver on strategy with the aim of providing sustainable and attractive returns to shareholders.



Adjusted Funds from Operations (AFFO)



	1H18 \$m	1H17 \$m
Profit before income tax	27.4	62.2
Revaluation gains	-	(35.8)
Derivative fair value (gain)/loss	2.6	9.7
Realised losses/(gains) on disposal	(0.1)	-
Earthquake expense net of recoveries	1.3	-
Gross distributable income	31.2	36.1
Depreciation recovered	0.4	-
Current tax expense	(5.0)	(7.0)
Net distributable income	26.6	29.1
Amortisation of tenant incentives and leasing costs	2.1	1.8
Funds from Operations (FFO)	28.7	30.9
Capitalisation of tenant incentives and leasing costs	(1.8)	(1.8)
Maintenance capital expenditure	(3.6)	(2.7)
Tax effected maintenance capital expenditure recovered	0.2	0
Adjusted funds from operations (AFFO)	23.5	26.4
Weighted average number of shares on issue (m)	823.6	813.8
AFFO per share (cents)	2.85	3.24
Dividends in period	3.10	3.05
Dividend payout ratio (to AFFO)	109%	94%

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.

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	41	13,512.2	13,948.3	436.1	3.2%	374.2	2.8%	100.0%
<i>By review type</i>								
Fixed	23	6,586.4	6,817.4	231.0	3.5%	231.0	3.5%	48.7%
Market	9	3,521.7	3,617.3	95.6	2.7%	92.5	2.6%	26.1%
CPI	9	3,404.1	3,513.6	109.5	3.2%	50.7	1.5%	25.2%
<i>By sector</i>								
Industrial	8	4,887.0	5,051.2	164.2	3.4%	130.6	2.7%	36.2%
Office	17	3,483.9	3,607.6	123.7	3.6%	120.6	3.5%	25.8%
Retail	16	5,141.3	5,289.5	148.2	2.9%	123.0	2.4%	38.0%
<i>By location</i>								
Auckland	37	12,602.3	13,010.5	408.2	3.2%	346.3	2.7%	93.3%
Wellington	4	909.9	937.8	27.9	3.1%	27.9	3.1%	6.7%
Other	0	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0%

Rent Reviews



	#	Previous Rent (000's)	New rent (000's)	\$ Increase (000's)	% Increase	Annualised \$ Increase (000's)	Annualised % Increase	% of rent reviewed
Auckland								
Office	14	2,919.0	3,024.8	105.8	3.6%	102.7	3.5%	21.6%
Industrial	7	4,542.0	4,696.2	154.2	3.4%	120.6	2.7%	33.6%
Retail	16	5,141.3	5,289.5	148.2	2.9%	123.0	2.4%	38.0%
	37	12,602.3	13,010.5	408.2	3.2%	346.3	2.7%	93.3%
Wellington								
Office	3	564.9	582.8	17.9	3.2%	17.9	3.2%	4.2%
Industrial	1	345.0	355.0	10.0	2.9%	10.0	2.9%	2.6%
Retail	0	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0%
	4	909.9	937.8	27.9	3.1%	27.9	3.1%	6.7%

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

21 November 2017