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Argosy

Investor Update



Industrial still expected to outperform



12-16 Bell Avenue – currently undergoing a Green Star upgrade.

CBRE¹ market research suggests outlook for some segments of the Auckland commercial real estate market are still sound, despite quite challenging economic conditions.

Total returns are forecast to be positive (high single digit) between 2022 and 2026, but slightly down on previous forecasts (low double digit).

Industrial is forecast to be the 2nd best performing sector at 7.2% (behind regional shopping centres at 8.1%) and CBRE returns will be underpinned by continued strong absorption levels, coupled with ongoing supply constraints and low vacancy rates.

In the December 2022 report, CBRE forecast annualised total returns for Auckland primary industrial of 7.2% over the five year period to 2026 and 6.7% for secondary.

Argosy has a ~35% weighting and ~8% weighting to these two sectors respectively.

Forecast volatility and vacancy rates for these sectors are very low.



“

The bottom up fundamentals for some segments of commercial property are certainly more appealing than others and we're well placed to benefit.”

Marilyn Storey
HEAD OF DEVELOPMENT

¹ Auckland Property Market Monitor December 2022, CBRE.

What the data is telling us

Argosy is well placed to benefit

It can be easy to overlook the fact that Argosy's portfolio is 51% weighted to the Industrial sector and 86% of this is located in Auckland. Its 28 properties are 100% occupied with a WALT of 6.2 years. Importantly, the majority of Argosy's organic value add development pipeline is in its Auckland Industrial estates of Mt Richmond and Neilson Street which are estimated to have a combined completed development value of approximately \$350 million.

Industrial developments

Neilson Street, Onehunga

This is one of Argosy's two value add green industrial opportunities and is a 3.5ha site located on the north side of Neilson Street directly opposite Waikaraka Park in Auckland's central industrial corridor. Neilson Street is strategically located approximately eight kilometres from the Auckland CBD with excellent access to both motorway networks, SH1 (3km) and SH20 (1.5km).

The development will target 6 Green Star high stud office/warehouse options from 3,500m² – 7,000m² and has a targeted occupancy date in late calendar 2024.

Mt Richmond Drive, Mt Wellington

Mt Richmond is a 10.6 hectare site in the central industrial precinct of Mt Wellington, only 15km from Auckland CBD. In addition, compared to Neilson Street at 3.5 hectares, Mt Richmond is the larger of the two value add green industrial opportunities at around three times the size. This industrial estate will benefit from targeting a minimum 6 Green Star rating with high stud options ranging from 4,000m² – 18,000m², ample parking, café and state of art end of trip facilities.

CBRE research noted that at December 2022 Auckland Industrial vacancy was 0.1%. For perspective, CBRE noted in their February 2023 hot off the press release that in the entire Auckland Industrial market of 13.6 million square metres only 7,600 square metres of secondary space is vacant. Simon Brake, Argosy's Development Manager says, "This type of structural constraint is very positive for Argosy given we have two large industrial value add development properties undergoing Master Planning."

0.1%

Industrial vacancy at the end of 2022 (CBRE market data)

Net absorption

In the six months to December 2022, total net absorption was approximately 223,000 square metres, with Prime net absorption around 240,000 square metres and Secondary grade being -17,000 square metres. Secondary grade negative absorption was due to previously occupied buildings being withdrawn from the market for redevelopment.



The industrial sector remains very attractive and the strong industrial market demand we're seeing is for sustainable buildings. So we're really well placed to benefit from this."

Peter Mence
CEO

CBRE AUCKLAND INDUSTRIAL SPACE MARKET TRENDS - FEBRUARY 2023



Business update



Peter Mence, Chief Executive Officer

We near the end of the 2023 financial year with a summer blotted with extreme weather and cyclone warnings. While interest rate tightening continues, the recent GDP contraction of -0.6% (QoQ) was much worse than the RBNZ's forecast of +0.7%. Accordingly, ANZ are of the view that a 25bps increase instead of 50bps at the next RBNZ meeting could be more appropriate. Homeowners with fixed mortgages rolling off in the short term are going to experience a painful bite to their cost of living. Inflation pressures are clearly evident across the domestic economy from the weekly shopping to filling the family car. Business confidence is also being tested. Despite all of these factors, Argosy is in good shape. The income line is solid and leasing activity has been strong which all supports dividend sustainability to our investors.

Rent reviews and leasing

For the 11 months of the FY23 year to 28 February we completed 94 rent reviews achieving annualised rental growth of 3.7%. These reviews were achieved on rental income totalling \$65.9m. On rents subject to review by sector, we achieved annualised rental growth of 3.8% on office reviews, 3.4% on industrial reviews and 4.9% for large format retail.

Auckland accounted for 84% of all reviews and achieved a 3.7% annualised increase and Wellington a 4.1% increase.

During the 11 months we completed 33 leasing transactions covering 95,334 square metres or around 15% of the total portfolio. Leasing transactions completed included 14 new leases, four extensions and 15 renewals.

As at 28 February we had remaining expiries accounting for 1.9% of leases expiring across five leases.

The team has worked very hard over the 11 months and achieved some great leasing outcomes including:

- General Distributors, 80-120 Favona Road, 46,828m², 10yr renewal
- McLarens Group (NZ) Limited, Citigroup, 988m² on a new 7 year lease
- Debonaire Furniture Limited, 39 Randwick Rd, 4,142m², 6yr renewal
- Visypet (NZ) Limited, 211 Albany Highway, 15,191m² on a 5yr renewal
- Hospitality Services Limited, Citigroup, 656m² on a new 10yr lease
- Briscoes Group, Albany Mega Centre, 5,650m² on a 6yr renewal
- Ministry for the Environment, 8 Willis Street, 2,245m² for 6 years
- Lighting Direct, Albany Mega Centre, 571m², 6 year renewal
- Mainfreight New Zealand, 32 Bell Ave, 8,138m², 1 year renewal

Developments

105 Carlton Gore Road: This \$35 million redevelopment is nearing completion with a target date now 1 June from May 2023 previously. The small extension due to inclement weather (Cyclone Gabrielle) which affected the timing of the curtain wall installation. The remaining focus is on interior finishes including integrated tenancy fitout on the ground floor, part Level 3 and all of Level 4.



The building is currently ~50% leased and we are negotiating interest for Level 2 (1,055m²) and the balance of part Level 3. This only leaves Level 1 available for lease. The building is targeting 6 Green Star certification with a forecast value of \$65m on completion, generating an IRR of 7.2% and a yield on cost of 5.3%.

Mt Richmond and Neilson Street: Master planning for these two value add industrial green developments continues to progress. Resource consents have been lodged and being processed by Auckland Council. We expect Stage 1 (earthworks consents) to be uplifted imminently for both sites. Stage 2 (structure) consents to be uplifted in the coming weeks.

Capital management

We continue to manage our balance sheet sensibly and our debt to total assets ratio as at February 28 was 32.7%. New Zealand Treasury recently noted that the direct implications of the Silicon Valley Bank (SVB) collapse in the US for New Zealand, are limited. New Zealand does not have any registered banks with a business model like SVB's. In addition, the Reserve Bank's prudential framework limits banks' vulnerability to rising interest rates and deposit outflows. However, broader risks and tightening financial conditions could impact on domestic banks so the Reserve Bank and market analysts will be watching developments closely over coming weeks.

Looking ahead

I expect calendar 2023 to be unpredictable. There are plenty of factors including high inflation and interest rates and central government elections in the last quarter, all of which will likely suppress economic activity and consumer confidence to varying degrees. Regardless, Argosy is well placed despite these headwinds. Our balance sheet is sound and the portfolio is in very good shape as we close out the financial year. We continue to complete our green developments and master plan for our industrial value add opportunities. The leasing market continues to demonstrate surprising resilience which is encouraging heading into the beginning of the 2024 financial year.

I look forward to updating you fully at our 2023 full year annual result webcast which will be released on 17 May 2023 and our ASM and Retail Roadshow in June.

ESG update

Variety - the Children's Charity

Variety is a remarkable organisation that helps support those families and children most in need. The organisation is a valued member of Argosy's small group of community partners it works closely with. Argosy is a regular supporter of Variety's 'kids in beds' winter appeal and last winters \$10,000 support went towards blankets, bedding packs and beds. Its also very pleasing to note Argosy staff again supported the cause and dipped into their own pockets, topping up the company sponsorship by a further \$800 making a total sponsorship package of \$10,800. With the cost of living crisis evident across our most at risk people and communities, it's been even more important to back those organisations supporting those most in need.

There are still Kiwi kids who are sleeping on the floor, on mouldy mattresses or couches, or bed-sharing this winter. Many children are growing up in cold, damp houses. Without a warm dry bed, these children are especially vulnerable to life-threatening illnesses like rheumatic fever. For this reason, Variety partners with the Healthy Homes Initiative (HHI), which identifies children who most need beds. HHI supports families in poverty to help make their homes warmer, drier and healthier.

Healthy Homes Initiative provider Nik Gregg says, "Despite all of the support we can provide, if our kids don't have their own sleeping space, the health and social benefits of a warm and dry home are compromised."

Spirit of Aventure Trust

Argosy continues to value its longstanding partnership with the Trust.

Nicola Garland, Head of Fundraising for the Trust said, "We recently asked Argosy if they would like to work alongside us to give back to some of the most weather impacted regions across New Zealand. It wasn't a hard decision to make and as a result Argosy are redirecting \$10,500 to help get some young people from the Hawkes Bay, Gisborne and Coromandel onto a 10-day voyage. We know the huge positive impact of these voyages on a young person and are delighted Argosy has decided to help them in this special way."



Some of the Argosy team packing Christmas Shoeboxes: Anna Hamill, Guy Mauvis, Cathy Lin and Neil Heron.

We know the experience is something special when we get feedback like this: *"I had an amazing voyage. I tried a lot of new things, different to anything I had done before. This voyage has encouraged and inspired me to live my life better and to make the most of my time."*

For further information on the 10-day youth development programme visit www.spiritofadventure.org.nz.

Catalytic Foundation

Argosy were proud to again support last years Christmas Shoebox Campaign, a project organised by the Catalytic Foundation to distribute Christmas gift boxes to children in need all over Aotearoa. In addition, Argosy were able to offer accommodation in some space at 39 Market Place. This enabled the Christmas Shoebox Project to reach out to over 3,750 people, 1,500 more than last year. For the Auckland base, the Catalytic Foundation not only serviced the wider Auckland and Northland regions, but it also distributed boxes of gifts throughout the country.

As usual, the Christmas gift boxes were delivered to families in hardship through local community charities around the country, ensuring that it goes to those who need it most.



Thank you so much for donating your office space which we have renamed as Santa's Grotto. This will mean so much to families who thought their children were going without this year."

—
Teresa Moore, CEO, Catalytic Foundation



The Keystone Trust

The Keystone Trust was established over 27 years ago. Its primary focus is to provide opportunities for young people to enter the property and construction industry – particularly those whose family, financial or other circumstances were such that their paths might be blocked.

The Trust supports these young people through a combination of scholarships and integrated industry engagement, including mentoring, career guidance and creating industry connections and networks. Currently there are over 50 students on the programme.

Argosy has an existing group of community partners who reflect our social investment philosophy of changing lives, saving lives.

And Argosy is pleased to announce we have committed to becoming a Keystone Trust Scholarship Partner from 1 April 2023 (2024 financial year).

Argosy CEO Peter Mence said, “We’ve been doing more social investment in the property space and to help young people. We believe The Keystone Trust is a good fit for Argosy and look forward to changing more young peoples lives over the long term. It’s an exciting way to kick off the 2024 year.”

JLL Keystone Trust Touch Day

On Friday 11th February Argosy participated in a JLL sponsored ‘Try for Charity’ event in support of Keystone Trust. This was the third attempt by JLL to launch the inaugural event and it was certainly a great day and very well organised. A key part of the event aside from fundraising for the Keystone Trust, was to connect with people away from the office. The Argosy team gave 100% on the day and ended up being the JLL Keystone Trust Plate Champions for 2023! Big thanks to our Keystone Trust students playing for us on the day: Neo Stuart, Ken O’Connor and Charlie Witana!

The prize for the top property touch rugby team on the day went to Re-Leased who were the 2023 Champions.

Retail Roadshow



Planning for the 2023 Retail Roadshow is underway. Chief Executive Officer Peter Mence is targeting this years 13-city tour around New Zealand in late June, early July. The Retail Roadshow remains a key engagement tool for Management to meet directly with shareholders and update them on the business performance, sustainability objectives and 10-year strategic plan. Argosy shareholders have always shown a great understanding of the business and the listed property space generally. Draft Retail Roadshow dates are provided below with invites to be sent very shortly.

Date	Location
21 June	Hamilton
22 June	Tauranga
23 June	Napier & Masterton
26 June	Wellington
27 June	Nelson
28 June	Christchurch
29 June	Dunedin
30 June	Invercargill
4 July	Palmerston North
5 July	New Plymouth
7 July	Whangarei
13 July	Auckland

Properties

54

Tenants

158

WALT

5.6yrs

Portfolio

\$2.26b

Occupancy

98.8%

Weighted average lease term

Total portfolio value

Occupancy (by rent)

Total portfolio update By sector



51%	Industrial
39%	Office
10%	Retail

Portfolio mix by asset type



82%	Core
15%	Value Add properties
3%	Properties and land to divest

Total portfolio value by region



70%	Auckland
27%	Wellington
3%	Rest of NZ

Dividend

The **3rd Quarter Dividend** for the 2023 financial year is 1.6625 cents per share, with imputation credits of 0.183806 cents per share attached. The record date for the dividend was 15 March 2023 and the payment date 29 March 2023. Overseas investors will receive an additional supplementary dividend of 0.083408 cents per share to offset non-resident withholding tax.

Important dates

FY23 Q3 DIVIDEND PAYMENT

29 MARCH 2023

FY23 ANNUAL ANNOUNCEMENT

17 MAY 2023

FY23 Q4 DIVIDEND PAYMENT

JUNE 2023

FY24 Q1 DIVIDEND PAYMENT

SEPTEMBER 2023

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