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Argosy

Investor Update

The business case for green

Argosy's big corporate goals are environmentally focused

Argosy has a big focus on sustainability and reducing its impact on the environment. We have outlined a number of big corporate goals over the next 10 years including reducing our carbon emissions and targeting 50% of our portfolio as green assets. The importance of green assets is not just part of a wider societal push for a cleaner planet, it is simply good business. The reduction of our carbon footprint is not discretionary: The world needs to do it and New Zealand needs to do it. On 12th December 2015, as part of "The Paris Agreement" New Zealand committed to reduce greenhouse gas emissions to 30% below 2005 levels by 2030.

What is green?

The World Green Building Council defines a 'green' building as a building that, in its design, construction or operation, reduces or eliminates negative impacts, and can create positive impacts, on our climate and natural environment. Green buildings preserve precious natural resources and improve our quality of life.

There are many features which can make a building 'green' including;

- Efficient use of energy, water and other resources;
- Use of renewable energy, such as solar energy;
- Pollution and waste reduction measures, and the enabling of re-use and recycling;
- Good indoor environmental air quality;
- Use of materials that are non-toxic, ethical and sustainable;
- Consideration of the environment in design, construction and operation;
- Consideration of the quality of life of occupants in design, construction and operation; and
- A design that enables adaptation to a changing environment.

Almost any building can be a green building, whether it's an office building, hospital, community centre, even a school or your home, provided it includes some or all of the features listed above.

We have been greening our portfolio since 2014 when our first project, 143 Lambton Quay for Te Puni Kōkiri, was completed.

Argosy's target weighting for green assets in the portfolio by 2031

>50%

Why certify green?

Green Star is an internationally recognised, trusted certification of sustainability for the design, construction and operation of sustainable buildings, fitouts and communities. Green Star certification requires commitment and evidence that a building is designed and constructed to meet industry-agreed best practice benchmarks for sustainability and efficiency.

Certification also distinguishes between those assets that have been 'designed to' green standards and those that have been 'built' to the standards.

Green certification is required to support an organisation's sustainable financing programmes, including the issuing of green bonds and sustainability linked loans.

What are the benefits?

Key findings from the World Green Building Council's (WGBC) report[1] and Green Building Council Australia's (GBCA) Green Star in focus report[2] identify several key reasons for greening assets including;

- **Cost effective** – evidence now clearly shows green buildings don't cost that much more than standard buildings. In fact, for the majority of certified green buildings, the cost typically ranges from 0% to 4%. The GBCA report suggests industrial projects average only 0.7% of total project costs. Green buildings are also shown to have lower running costs over their lifecycle.
- **Workplace productivity and health** - green design attributes and indoor environments improve worker productivity and overall health & wellbeing. The GBCA report indicates a 27% reduction in staff churn, 90% satisfaction levels and reduction of four sick days per employee per year.
- **Asset values** – green buildings have been shown to be higher than their conventional counterparts driven by a range of factors including; higher rents, longer leases, lower operating costs and higher occupancy rates resulting in lower capitalisation rates. Price premiums range from 0-30%.
- **Operating costs** – green buildings are shown to deliver lower operating costs, for example through reduced energy and water consumption.
- **Risk mitigation** – including physical (e.g. exposure to extreme conditions), technological (e.g. costly maintenance), market risks (e.g. 'discount' for brown, lower occupancy), regulatory risks (failure to meet sustainability benchmarks, decrease in value due to low energy rating).

The numbers are clear

The GBCA report provided clear evidence of the benefits of green industrial buildings on the environment as summarised in the chart below:

Green Star-certified buildings:

use **66%** less electricity than average Australian buildings.

produce **62%** fewer greenhouse gas emissions than average Australian buildings.

use **51%** less potable water than if they had been built to meet minimum industry requirements.

New Green Star-certified industrial buildings:

produce **66%** fewer greenhouse gas emissions than standard buildings.[1]

The World Green Building Council's *Business Case for Green Building* showed that:

a minimal **2%** upfront cost to support green design can result, on average, in life cycle savings of **20%** of total construction costs.[2]

1. GBCA. Additional data analysis (2019) (p.11)
2. World Green Building Council. 2013. The business case for green building – A review of the costs and benefits for developers, investors and occupants. Retrieved from https://www.worldgbc.org/sites/default/files/Business_Case_For_Green_Building_Report_WEB_201304112.pdf (p.11)

Stakeholder perceptions

Depending on the stakeholder, the concept of "asset value" means different things to different groups. Data gathered from the WGBC report[3] noted that green buildings tended to achieve higher asset values than their non-green peers due to benefits such as; higher rental rates, lower operating expenses and higher occupancy rates, resulting in lower yields.

Further, a recent Jones Lang Lasalle report[4] in June 2021 concludes from a survey of Asia Pacific (APAC) companies, that 7 in 10 were willing to pay higher rents for green buildings.

Case study: 82 Wyndham Street

With the international research clarifying the many benefits of green, we review one of Argosy's green projects below.

Background

The makeover of 82 Wyndham Street in Auckland's CBD was completed in 2018. Argosy took the opportunity to undertake a complete refurbishment of all the building's base services. Through a mixture of innovation and additional specification of services, Argosy achieved a 5 Green Star built rating compared with the targeted 4 Green Star rating. The four-level 6,200m² building had three levels of offices and basement parking. New services at the property include;

- end of trip facilities to encourage cycling to work with bike racks and showers;
- a variable refrigerant flow air conditioning system with heat recovery allowing for substantial energy savings in partial-load conditions;
- an increase in the building's cooling and fresh air supply so it can cater for a density of one person per eight square metres;
- highly efficient water fixtures and electricity metering to enable usage to be measured for NabersNZ.

1 The World Green Building Council (April, 2013), The business case for green.
2 Green Building Council Australia (August, 2020), Green star in focus, the case for sustainable industrial buildings.
3 The World Green Building Council (April, 2013), The business case for green, p36.
4 https://www.jll.com.au/en/newsroom/seven-inF-1i0-dcom&planies-in-asia-pacific-willing-to-pay-higher-rent

Case study continued

The numbers supporting 82 Wyndham Street transformation to green include:

INCREASE in gross rents

25%

DEVELOPMENT margin

11%

SAVINGS in ENERGY costs

30%

INTERNAL RATE OF RETURN (IRR)

8.3%

Conclusion

There is now a solid body of evidence that illustrates green buildings are not just good for the environment but that they're good for the people that occupy them. Coupled with the additional financial and risk mitigating benefits that also apply, then green is the only way forward.

> "We continue to see more stakeholders increasingly recognise that green buildings deliver superior benefits over time."
>
> —
>
> Peter Mence, CEO

Business update

Who would've thought that 18 months on, we were again in lockdown. It's certainly been an incredibly challenging 12 months for the global and local economies. We certainly remain cautious about the future for now and can't rule out further headwinds during the balance of the calendar year.

Since the FY21 results, we have continued to work hard on behalf of shareholders. It's been really pleasing to have delivered across a range of key operational metrics and strategy focus areas.

Rent reviews and leasing

The first half of FY22 has been very busy and the team have delivered some great outcomes against strategy and focus areas.

For the five month period to 31 August, we completed 40 rent reviews achieving annualised rental growth of 2.4%. These reviews were achieved on rental income totalling $23.4m. On rents subject to review by sector, we achieved annualised rental growth of 2.4% on office rent reviews, 2.4% on industrial reviews and 2.5% for large format retail. Auckland accounted for 81% of all reviews and achieved a 2.4% annualised increase and Wellington a 1.6% increase.

During the first five month period we completed 20 leasing transactions including 15 new leases, two extensions and three renewals. We continue to focus on our remaining expiries where, by income, Argosy has 6.3% of income expiring in the remainder of FY22 across 9 leases. Despite the challenging economic environment, the team achieved some excellent leasing outcomes over the first five months including;

- Macpac Limited, Albany Mega Centre, 775m² on a new 6yr lease
- MHUD, 7WQ, 1,228m² on a new 7.4yr lease
- The Baby Factory, Albany Mega Centre, 527m² on a new 6yr lease
- PBT Transport, 18-20 Bell Ave, 8,941m² on a new 10yr lease
- PBT Transport, 12-16 Bell Ave, 9,763m² on a new 10yr lease
- Tax Management New Zealand Limited, 23 Customs Street, 655m², on a new 5 year lease
- NZ Blood & Organ Service, 308 Gt South Road, 576m² on a new 3yr lease
- Delonghi New Zealand Limited, 99-107 Khyber Pass, 367m² on a 5yr renewal
- Earthwise Group Ltd, 12 Allens Road, 2,337m² on a new 3yr lease

Peter Mence Chief Executive Officer

Development update

8-14 Willis Street/360 Lambton Quay

The development continues to progress despite the short term interruption from the recent COVID lockdown. There was a significant project milestone achieved with the crane tower removed on 8 August. Works now underway are internal landlord works such as services commissioning and tenant fitout related works.

Leasing on the retail part of the development continues and there is solid market interest for space given its attractive location.

7WQ

As noted above, Level 9 of 7WQ has been leased to the Ministry of Housing and Urban Development (MHUD) on a 7.4yr lease. This aligns with MHUD's existing lease for levels 6, 7 & 8 bringing its total leased area to 4,903m². Only L12 remains to be leased and we are in active discussions with potential tenants for this space.

The outlook certainly remains challenging subject to the risks of any further COVID outbreaks and lockdowns.

However, I look forward to updating you all further at our interim results to be announced on 23 November.

Environmental, Social and Governance Update

Over the first six months of FY22 Argosy continues to engage and grow on its social responsibility commitment in local communities. Below we provide an update of some of the outcomes achieved by the local community organisations that Argosy supports.

Variety - the childrens charity. Winter 'warm hearts' appeal.

This winter Argosy has again engaged with Variety to support their 'kids in beds' winter appeal. Variety is an amazing organisation that helps support those families and children most in need. For many children, in New Zealand's poorest communities, having a bed is something they can only dream about. Some children sleep on couches, on the floor or share with siblings. This sharing can put them at risk from preventable respiratory conditions like bronchiolitis and rheumatic fever.

For the second year, Argosy has supported the winter appeal with $7,500 towards blankets, bedding packs and beds. Its also very pleasing to note 12 Argosy staff dipped into their own pockets and topped up the company sponsorship by $2,000, making a total sponsorship package of $9,500.

"We are very happy to support an organisation that makes a real difference to communities and families and fits with Argosy's social philosophy of 'changing lives, saving lives'," said Peter Mence, CEO.

variety the children's charity

Kids who will get a bed of their own this winter

28

Each of those children will have a healthy sleeping space - somewhere they can snuggle down and dream.

> We would just like to say thank you from the bottom of our hearts ...we feel truly blessed.."
>
> —
>
> Grateful Grandparent

Annual Shareholders Meeting (ASM) - hybrid again

On 29 June 2021 Argosy held its second hybrid ASM at the Royal New Zealand Yacht Squadron in Westhaven, New Zealand. The benefit of the hybrid option is that it still allows shareholders to participate and attend 'virtually' in all elements of the ASM, including being able to ask questions and complete their voting.

This was Chairman Jeff Morrison's first formal ASM in his capacity as Chair and both he and CEO Peter Mence provided addresses to shareholders on the results to 31 March and a current business update. The ASM saw all resolutions passed including Jeff Morrison and Stuart McLauchlan being elected as directors.

2021 Retail Roadshow - success!

After being cancelled in 2020 due to Covid, Argosy was able to hold its Annual Retail Roadshow between 29 June and 22 July this year. The roadshow again took CEO Peter Mence and CFO Dave Fraser across 13 cities around New Zealand over three weeks.

Despite the gap since the last roadshow, overall attendance numbers for the roadshow were very good. Peter Mence and Dave Fraser were really pleased with the breadth and depth of questions from shareholders attending. There was plenty of interest in Argosy's new corporate goals especially around sustainability and focus on reducing carbon emissions. The new dividend policy was also a topic of interest.

A big thanks goes out to those directors who were able to meet and greet investors during the roadshow – Chair Jeff Morrison, Mike Pohio, Martin Stearne and Stuart McLauchlan.

Top: Mighty Ape, Highgate, Silverdale - 5 Green Star. Bottom: 8-14 Willis Street / 360 Lambton Quay (render) - targeting 6 Green Star.

Properties

54

Tenants

157

WALT

5.4yrs

Weighted average lease term

Portfolio

$2.02b

Total portfolio value

Occupancy

99.1%

Occupancy (by rent)

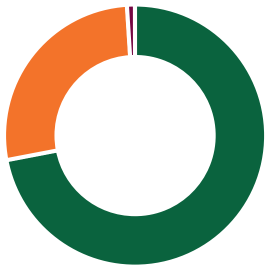
Total portfolio update
By sector

48%	Industrial
41%	Office
11%	Retail

Portfolio mix
by asset type

83%	Core
17%	Value Add properties
0%	Properties and land to divest

Total portfolio value
by region



72%	Auckland
27%	Wellington
1%	Nth Island regional & Sth Island

Dividend

The **1st Quarter Dividend** for the 2022 financial year of 1.6375 cents per share, with imputation credits of 0.138124 cents per share attached. The record date for the dividend was 15 September 2021 and the payment date was 29 September 2021.

Important dates

FY22 Q1 DIVIDEND PAYMENT
29 SEP 2021

FY22 INTERIM ANNOUNCEMENT
23 NOV 2021

FY22 Q2 DIVIDEND PAYMENT
DEC 2021

FY22 Q3 DIVIDEND PAYMENT
MAR 2022

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