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31 July 2022

Argosy

Investor Update

Creating greener workspaces



8 Willis Street, Wellington.

Argosy's Head of Sustainability, Saatyesh Bhana, says Argosy Property started on its sustainability journey well over a decade ago. Saatyesh says Argosy began refurbishing buildings because it realised early on that it was more sustainable to refurbish an existing building than it was to demolish it and build a new one in its place. From there the company moved to targeting energy efficiency. "Again, we moved on this quite early on. More recently, we've gone on to looking at reducing our emissions. We look at a building's operating emissions and aim to reduce the emissions in a redevelopment or new development. Our goal is to reach net zero carbon."

Today's tenants want sustainable buildings, but it wasn't always that way. Saatyesh says Argosy had to anticipate demand. "We were ahead of our tenants. When we did our first government

building in 2014, the tenant wasn't looking for a green rating at that time. We made the base building comply with the standard regardless. "Since then, the government introduced emission reduction policies, so now they all need to do it. The most recent building that we've completed in Wellington at 8 Willis Street (for Statistics New Zealand) is now also going for an interior rating."

Its not just government tenants wanting sustainable buildings

Online retailer Mighty Ape needed an industrial building which became one of the early 5 Green Star industrial properties in New Zealand. Tenants have sought sustainable office buildings for a decade or so. The demand for sustainable industrial buildings is only emerging now.



“

We just finished 8 Willis Street in Wellington and they're now going for an interior rating.”

Saatyesh Bhana
HEAD OF SUSTAINABILITY

“When we did the Mighty Ape industrial building in 2019, we offered the company a 5 Green Star option,” says Saatyesh.

“The tenant knew it wanted to be more environmentally conscious, so the building became a catalyst for the company to start its wider sustainability journey.”

Another example is the Panuku building for Auckland Council. “When Panuku came to our building it was targeting a 5 Green Star rating,” explains Saatyesh. “Because the base building was going to be certified and met the requirements, they found the costs for their green fit-out was substantially cheaper because the base building already complied.”

Councils are also sustainability focused

Building efficiency is critical

"Panuku's building also scores highly when it comes to energy efficiency. Saatyesh says refurbishing for energy efficiency gives tenants an obvious and immediate financial benefit as the costs of heating and cooling the building are substantially lower. There's an art to getting this right.

Argosy is adding solar electricity generation to upcoming refurbishments and developments.

More recently the focus has been on a building's carbon footprint. Saatyesh says Argosy looks at the carbon footprint as it redevelops a building, as well as the amount of carbon associated with the building itself. "When you look at the models, 50 per cent is about the operation of the building, so the earlier work on energy efficiency comes back as well."

Argosy's Environmental Engineer Nathan Herbert adds "Our current investors are looking at our environmental, social and governance (ESG) guidelines and management procedures. We're now reporting to various standards and frameworks including the GRI (Global Reporting Initiative), which aligns us internationally with measures our investors can rate us against." When it comes to the carbon footprint, many buildings have already been certified and that's now being extended to all properties. Argosy has been certified by Toitū Envirocare as being net carbon zero for 2021.

“

We are seeing increased market demand for sustainable buildings and Argosy is well placed to benefit.”

Simon Brake
DEVELOPMENT MANAGER



Net carbonzero certified

"By becoming net carbon zero certified we're committed to an emissions management reduction plan. We're aiming to reduce our emissions by 30 per cent through 2030." Saatyesh is positive about the trend for companies to allow more office based employees to work from home. "One of the things we've found as a result of Covid is that tenancies depend on where an organisation is placed. If it's growing, working from home does not give an organisation the synergies they need with people feeding off one another. They start to work in silos. If the team has worked together for years, being apart doesn't matter as much because the culture is embedded. We noticed that a lot of organisations that were outgrowing their space found they could change furniture or layouts and stay in the space they had. They just had to get more efficient at using it."

Another aspect of the work-from-home trend is the need to make office spaces more attractive to people who now have a choice. Saatyesh says when a company has a Green Star rated building, it will have better air conditioning and heating systems than most people have at home. There's a need to ensure spaces are well designed for social connections, something he says is often overlooked. But if an employer can get the physical environment right, people will want to return to the office.

Argosy adds resources

Sophie Stone & Daniel Russell - New Property Managers

Sophie Stone has joined Argosy as a Property Manager. Sophie went to Saint Kentigern College and graduated from the University of Auckland with a Bachelor of Property and Commerce conjoint. In 2020, Sophie was the recipient of the Argosy Scholarship. Prior to joining Argosy, Sophie had a stint in residential property management. Outside of work, she enjoys travelling, with a trip to the USA on the horizon for 2023. Currently, Sophie is training to run in the Classic Event in the Shoe Science Half Marathon Series.

Daniel Russell has joined Argosy as a Property Manager. After graduating from Westlake Boys High School in 2016, he went on to study for a Bachelor of Property at The University of Auckland. Prior to joining Argosy, Daniel worked as a Passive Fire Engineer and also has experience working as a Building Warrant of Fitness Inspector. Outside of work Daniel is a competitive power lifter holding 4 New Zealand Records as well as being a 2 time New Zealand Champion and an Oceania Champion.

Lindy Esslemont has joined the team as Property Services Administrator. She has spent the last 17 years as a Property/Facilities/Project Manager with TVNZ, BNZ, Waste Management, InvoCare NZ, Oji Fibre Solutions and Methodist Mission Northern. She is also a ex British and Australian Army Officer. She has lived in NZ for 26 years having originally emigrated to Australia. In her spare time, she is involved with the Royal Commonwealth Society as a Council member, the Auckland Officers' Club and Rotary.

Welcome Sophie, Daniel & Lindy!



Lindy Esslemont, Daniel Russell and Sophie Stone

Business update



Peter Mence, Chief Executive Officer

It's pleasing to see the Government just the other week has finally removed all current traffic light settings and we will be repositioning New Zealand for quite a different future. The economic outlook certainly remains challenging with interest rates, inflation and cost of living very much front of mind for many people. While there are certainly headwinds, there are also green shoots with Argosy's portfolio and capital position being very sound, our green developments are progressing and the leasing market relevant to the Argosy portfolio remains encouraging.

8 Willis Street Opening

On 8 June several Argosy staff attended the formal opening and blessing of 8 Willis Street in Wellington. Despite the challenges encountered along the way - together with all our partners, we've seismically strengthened and significantly improved this landmark Wellington property. The building now provides innovative & modern multi-level open-plan office spaces in which people can thrive. We're targeting 6 Green Star certification which is 'world leading' and would make this a first for Wellington and for Argosy. A big thank you to Kura Moreahu and members of the Te Āti Awa Taranaki whānui for blessing the building and delivering such a warm welcome to all attendees on the day. Statistics New Zealand has a 15 year lease on the building.

Rent reviews and leasing

For the first five months of the FY23 year to 31 July we completed 35 rent reviews achieving annualised rental growth of 2.5%. These reviews were achieved on rental income totalling \$19.9m.

On rents subject to review by sector, we achieved annualised rental growth of 2.4% on office reviews, 2.8% on industrial reviews and 2.9% for large format retail. Auckland accounted for 90% of all reviews and achieved a 2.6% annualised increase and Wellington a 1.9% increase.

During the first four months we completed 16 leasing transactions covering 24,156m² including 7 new leases, 2 extensions and 7 renewals. The remaining expiries for FY23 remain a key focus for Argosy which has 9.7% of leases expiring across 18 leases.

Despite some ongoing economic headwinds, the team have been working very hard and achieved some excellent leasing outcomes over the first five months including;

- Briscoes group, Albany Mega Centre, 5,650m² on a 6 year renewal;
- Ministry for the Environment, 8 Willis Street, 2,245m² for 6 years;
- Lighting Direct, Albany Mega Centre, 571m², on a 6 year renewal;
- Chorus New Zealand, 99 Khyber Pass, 620m², on a 3 year renewal;
- Macpac New Zealand, 360 Lambton Quay, 389m², on a 6 year renewal;
- Mainfreight New Zealand, 32 Bell Ave, 8,138m², on a 1 year renewal; and
- Rank Group, Citigroup, 656m², 1 year renewal.

Development update

12-16 & 18-20 Bell Avenue

This \$8.8m redevelopment is targeting 4 Green Star and continues to progress well with 95% of asphaltting pavement works having now been completed. PBT has entered into a new 10 year lease with two rights of renewal of six years. On completion, the project is forecast to have a yield on development cost of 5.2% and IRR of 8.3%.

105 Carlton Gore Road, Newmarket

This development has commenced and risk items (ie. which could result in potential delays) including lifts and air conditioning units have all now arrived. All plaster board is available. This \$35m green redevelopment has an expected completion date of May 2023. The building is targeting 6 Green Star certification with a forecast valued of \$65m on completion, generating an IRR of 7.2% and a yield on cost of 5.3%.

Capital Management

We continue to be proactive capital managers and our debt to total assets ratio as at 31 July was 32.6%.

Looking ahead, the back end of calendar year 2022 remains challenging with high domestic inflation and still rising interest rates. Regardless, we remain focused on greening the portfolio and maintaining a resilient and diversified business that delivers sustainable dividends to shareholders. Have a safe festive season with family and friends and we look forward to updating you in the March 2023 investor update and on our FY23 annual result webcast to be released on May 2023.



ESG update

Over the first few months of FY23 Argosy has continued to engage and grow its social responsibility commitment in local communities.



Variety - Winter 'warm hearts' appeal

This last winter Argosy again partnered with Variety to support their 'kids in beds' winter appeal. Variety remains a remarkable organisation that helps support those families and children most in need. Sadly, Variety knows fullwell that for many children in some of New Zealand's poorest communities that having a bed is something these children can only dream about. Living conditions across New Zealand over the last 6-12 months have not eased. Some children sleep on couches, on the floor or share with siblings – which creates other risks. For the third consecutive year, Argosy has supported the winter appeal and this year's \$10,000 support has gone towards blankets, bedding packs and beds.

It's 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.



Supporting the Christmas shoebox appeal

Argosy are proud to support this year's Christmas Shoebox Campaign, a project organised by the Catalytic Foundation to distribute Christmas gift boxes to children in need all over Aotearoa. The Christmas gift boxes will be delivered to families in hardship through local community charities around the country, ensuring that it goes to those who need it most. Argosy have donated use of spare office space to the Catalytic Foundation team, giving them and their volunteer a place in which to store, pack and post out the Christmas gift boxes. "Thank you so much to 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.



Annual Shareholders Meeting (ASM)

On 30 June Argosy held its third hybrid ASM at the Royal New Zealand Yacht Squadron in Westhaven, New Zealand. Shareholders are certainly becoming accustomed to the benefits of the hybrid option which allows them to participate and attend 'virtually' in all elements of the ASM including being able to ask questions and complete their voting. Chairman Jeff Morrison and CEO Peter Mence – both provided their addresses to shareholders on the results to 31 March and a business update. All ASM resolutions passed including Chris Gudgeon and Mike Pohio both being elected as directors.



2022 Retail Roadshow

The 2022 Retail Investor Roadshow occurred between 22nd June and 8th July. Senior Management presented in 13 locations across the country. Led by CEO Peter Mence and CFO Dave Fraser, they presented the financial results to 31 March 2022 and provided an update on Argosy's vision of *Building a Better Future* and an update on strategy and portfolio activities. Despite concerns around potential attendee numbers due to things like COVID and an aggressive influenza circulating around, the roadshow was well attended and there was good interaction and feedback from investors.



105 Carlton Gore Road render



105 Carlton Gore Road render

Properties

54

Tenants

161

WALT

5.6yrs

Weighted average lease term

Portfolio

\$2.2b

Total portfolio value

Occupancy

98.8%

Occupancy (by rent)

Total portfolio update
By sector



- 52% Industrial
- 38% Office
- 10% Retail

Portfolio mix
by asset type



- 78% Core
- 22% Value Add properties
- 0% Properties and land to divest

Total portfolio value
by region



- 72% Auckland
- 27% Wellington
- 1% Rest of NZ

Dividend

The **1st Quarter Dividend** for the 2023 financial year is 1.6625 cents per share, with imputation credits of 0.206261 cents per share attached. The record date for the dividend was 14 September 2022 and the payment date 28 September 2022. Overseas investors will receive an additional supplementary dividend of 0.093597 cents per share to offset non-resident withholding tax.

Important dates

FY23 Q1 DIVIDEND PAYMENT

28 SEPTEMBER 2022

FY23 INTERIM ANNOUNCEMENT

22 NOVEMBER 2022

FY23 Q2 DIVIDEND PAYMENT

DECEMBER 2022

FY23 Q3 DIVIDEND PAYMENT

MARCH 2023

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