Argosy

Investor Update

SEPTEMBER 2013

DEAR SHAREHOLDER

Welcome to the reintroduced Argosy Investor Update. In this edition, I would like to give you an insight into the property market as I see it.

The market is ultimately determined by what the consumer wants. The long-term value of property assets is determined by the attraction of one property over another to the occupant and, in retail, this is in turn determined by what the retailer's customer wants.

Green star buildings are not the be-all and end-all. Sadly, we have seen a large number of green star design rated buildings that have failed – sometimes in spectacular fashion – to meet the lofty standards to which they were designed. Of far greater relevance is the performance rating of a building – exactly how efficient it is in operation. This is particularly so in a modestly expanding property environment such as that in New Zealand.

We have a fundamental issue in New Zealand with the perception that an upgraded existing building is of lesser quality than a new building. The total carbon footprint of demolishing an existing building and constructing a new building is significant when compared to the operational costs of a building.

▲ Te Puni Kokiri, 143 Lambton Quay WELLINGTON

The sad reality is that the occupier as a tenant does not accurately determine the functional quality of one building over another. This means that developers are able to reduce the quality or make cuts to the design and construction of a property where they are not seen or appreciated by the occupier.

As a result, and in very simple terms, the property manager spends her or his career fixing the problems that the property developer either unknowingly, or worse consciously, creates. Simply put, the lack of diligence on behalf of the developer reduces the amenity and the return from their products.

Fundamentally, the developer's wants and drivers are different to those of a person with a longer-term association with the building. The tenant needs to live with the property for the duration of the lease and, potentially, the renewal periods. The owner and their investors need to live with the asset through its complete cycle. Now a developer may argue that businesses are sick of living in 'stale old buildings' and want something new but let us consider that, if that view is correct, then quite simply the developer's product has a shorter lifespan and is therefore worth less as a commodity in the first place.

So are all developers a scourge? Not at all; it is simply the lack of property expertise of the tenant as consumer, or of their advisors, that creates a none-too-gradual dumbing down and an increasingly superficial property market. Developers will and can only construct a property that a tenant wishes to occupy. ●

PETER MENCE
CHIEF EXECUTIVE OFFICER

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>
> PETER MENCE

People

Board succession planning has resulted in the appointment of two further Directors.

CHRIS HUNTER

Chris Hunter has extensive commercial property experience including over 25 years in New Zealand's construction industry, most recently as the CEO of Hawkins Construction. Over the past 20 years, he has been associated with more than $10 billion worth of developments across industrial, commercial, retail, residential and infrastructure. Mr Hunter currently has a portfolio of business investments and is active in the property development sector. He is advising a number of publicly listed companies in their property and construction ventures. He is an Associate Member of the New Zealand Institute of Quantity Surveyors, a fellow of the Royal Institute of Chartered Surveyors and holds an MBA from Massey University.

JEFF MORRISON

Jeff Morrison is a senior partner at Russell McVeagh and has extensive commercial property experience encompassing complex industrial and commercial leasing, acquisitions and disposals, construction, developments, farming, forestry, joint ventures and foreign investment. Mr Morrison is a qualified lawyer and a member of the New Zealand Law Society's Property Law Section. He is also a director of several private companies.

Earthquakes

During July 2013, central New Zealand was hit by a series of earthquakes and subsequent aftershocks causing widespread damage in Wellington and the top of the South Island. The biggest shake occurred on Sunday 21 July when a magnitude 6.5 quake struck Cook Strait. A subsequent 6.6 magnitude quake struck the region on Friday 16 August. All of Argosy's properties in the Wellington region have been assessed by structural engineers following both of the major earthquakes, with no structural concerns identified.

Rights Issue

The 1 for 7 rights issue closed on 2 August 2013 with $86.9 million being raised successfully and 97.7 million new shares being issued. The funds raised have been used to repay bank debt following the purchase of the Mangere Distribution Centre and the Vector Centre in Newmarket, Auckland.

Argosy CFO, Dave Fraser, said "We are very pleased with the successful completion of the Argosy rights issue. As a result, Argosy has the financial flexibility to invest in properties that fit within our investment strategy."

STRATEGY UPDATE

Earlier this year, the Argosy Board and Management undertook a strategic review of the entire portfolio.

Following this very worthwhile exercise, it has been determined that the portfolio will be in the primary Auckland and Wellington markets, with modest tenant-driven exposure to provincial markets.

The portfolio will consist of 'Core' and 'Value Add' properties. Core properties are well-constructed, well-located assets intended to be long-term investments and will make up 75–85% of the portfolio.

Value Add properties are assets which, through skilled asset management, can increase future earnings and provide capital growth. Value Add properties will be well located with the potential for strong long-term tenant demand.

Approximately $112.0 million of the portfolio is considered neither Core nor Value Add and are expected to be divested as market conditions allow. ●

Sector	Current*	Target	
Commercial	42%	35–45%	✓
Industrial	29%	35–45%	↑
Retail	29%	15–25%	↓

* Core and Value Add properties after the acquisition of the Vector Centre, and the New Zealand Post and Stout Street development capital expenditure is included.

Website

Our new website has just been launched and we encourage you to take a look. The website address remains the same – www.argosy.co.nz

On our website, you can see Argosy's up-to-date share price and read more about our strategy and people. You can also access Argosy's latest announcements and reports.

Leasing Update

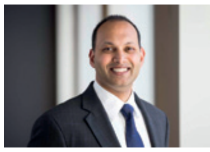
2013 has been a strong year on the leasing front for Argosy. Occupancy (by rental income) was 96.2% at the end of the last financial year. Since then, 14,800 square metres of net lettable area has been let at 12–16 Bell Avenue to Peter Baker Transport. This company is already a tenant of Argosy in two smaller adjoining buildings. Occupancy (by rental income) at 31 July 2013 was 97.6%.

The lease expiry profile to 31 March 2014 has also improved and is down from 7.4% as at 31 March 2013. Management is actively marketing all of the vacant space for lease.

OCCUPANCY BY RENTAL INCOME AT 31 JULY 2013

97.6%

STOUT STREET



SAATYESH BHANA
ASSET MANAGER

NET LETTABLE AREA SQM

19,630

LEVELS

10

NATIONAL BUILDING STANDARD COMPLIANCE

100%

Argosy settled the purchase of 15–21 Stout Street on 31 July 2013.

The Stout Street building was built in 1939 for use by the Government as the 'Departmental Building'. The last occupant was Ministry of Defence. The building is listed by the New Zealand Historic Places Trust as a Category II historic place. The building is 100% of the National Building Standard (NBS) and was the first building in New Zealand to be physically tested in situ to determine its seismic performance.

The building has an impressive 60-metre frontage along Stout Street and neighbours two other Argosy assets: Te Puni Kokiri and TSB Bank Tower. The building comprises 19,630 square metres of net lettable area over 10 levels.

STREET FRONTAGE OF

60m

The interior of the building has been completely stripped for a total refurbishment. The architectural design for the building will provide an environment consistent with the latest standards in workplace design while, at the same time, recognising the special character of the original building. The addition of a new, central, glazed atrium fully open to each floor will transform the building interior, providing good natural light penetration into each level. The original six lifts will be replaced with eight lifts, including a goods lift.

ENERGY EFFICIENCY

The building has been designed and constructed to be a minimum of a four star 'built' rating and, on completion, Management will apply for that certification. The built rating confirms that what has been designed has been built.

The benefits of this are as follows:

— The performance of the building will be documented and certified
— There will be lower operating costs
— The potential for value uplift through direct comparison with other built rated buildings is improved.

The building will have new electronically commutated fan coil units (ECFCU) in the ceiling space with new supply air diffusers (grilles) fitted in the ceiling grid. New air-to-air heat recovery will be installed to recover energy from air that is exhausted into the atmosphere; these systems will be controlled by a new building management system.

There are three new energy-efficient chillers and three condensing boilers that will match the occupancy demand of the building. This will reduce excess heating and energy wastage. We are also installing air-to-air heat recovery; this process allows for the incoming air to be tempered and less energy is required to heat or cool the air.

New energy-efficient light fittings with high light dispersion controlled by a combination of daylight and occupancy sensors will provide even light levels across the floor. When it is bright and sunny outside, these lights will dim to save power, recognising there is enough light coming in through the windows.

A new suspended ceiling grid and acoustic tiles will be installed that absorb sound and reflect light, to provide a light and open feel to the space. The tiles are also environmentally friendly products as are the new carpet tiles.

Annual Meeting

The Annual Meeting was held on 27 August 2013 at Te Puni Kokiri House in Wellington. Chairman Mike Smith and CEO Peter Mence both gave addresses, which can be viewed on our website at www.argosy.co.nz

At the meeting, two Directors, Mike Smith and Peter Brook, were re-elected with Chris Hunter and Jeff Morrison both being elected on to the Board for the first time.

The following resolutions were passed:

— The total amount available for Directors' fees increased to a maximum of $655,000, which represents a 4% increase over two years plus an allowance for the additional Directors
— The Board was authorised to fix the auditor's fees and expenses.

PORTFOLIO UPDATE AS AT 31 JULY 2013

PROPERTIES

65

TENANTS

223

WALT

6.23yrs

Weighted average lease term of 6.23 years

PORTFOLIO

$1.09b

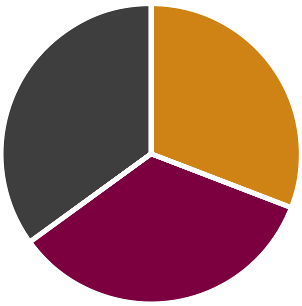
Total portfolio value of $1.09 billion

OCCUPANCY

97.60%

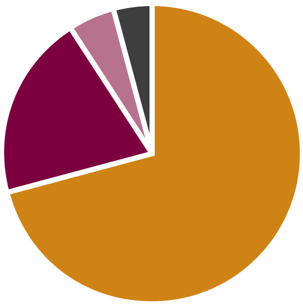
Occupancy (by rent) of 97.60%

TOTAL PORTFOLIO VALUE BY SECTOR



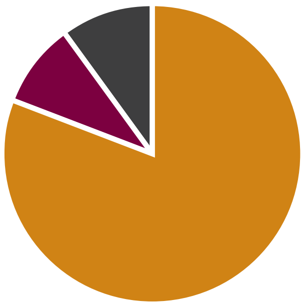
- 31% Retail
- 34% Commercial
- 35% Industrial

TOTAL PORTFOLIO VALUE BY REGION



- 71% Auckland
- 20% Wellington
- 5% Palmerston North
- 4% Regional

PORTFOLIO MIX



- 81% Core
- 9% Value Add properties
- 10% Properties and land to divest

Dividend

The **FIRST QUARTER** dividend for the 2014 financial year of 1.50 cents per share will be paid on 25 September 2013, with the record date being 11 September 2013. As indicated by the Board earlier in the year, a dividend of 6 cents per share is expected to continue for the year to 31 March 2014. The Dividend Reinvestment Plan (DRP) will continue and a 1% discount will be applied to the price at which shares will be issued under the DRP for this dividend.

IMPORTANT DATES

QUARTER 1 DIVIDEND PAYMENT
September 2013

INTERIM RESULTS ANNOUNCEMENT
28 November 2013

QUARTER 2 DIVIDEND PAYMENT
December 2013

2014 INVESTOR ROADSHOW
February/March 2014

QUARTER 3 DIVIDEND PAYMENT
March 2014

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