

## Market Release

9 October 2020

### Strategic industrial acquisition and general market update

#### Acquisition of Mt Richmond Industrial Properties

Argosy has today announced the unconditional acquisition of two contiguous industrial sites at 8-14 Mt Richmond Drive and 2 Doraval Place in Mt Wellington, Auckland for \$76 million (**Mt Richmond Properties**). Key transaction details are:

- **Site size:** The purchase comprises two titles totalling 10.64 hectares of land and approximately 23,000m<sup>2</sup> of buildings which are currently occupied.
- **Leases:** There are two tenants occupying the property. The largest has a lease term to December 2027, with a break clause in January 2024. The other has a licence to occupy to February 2022. The WALT from settlement is 2.2 years.
- **Rent:** The current net rental per annum is \$3.55 million.
- **Returns:** Holding return is 4.7% p.a.
- **Settlement:** Late March 2021.

Chief Executive Officer, Peter Mence said “We are pleased to have secured these strategic sites within a prime industrial precinct with historically very low supply levels. The acquisition of the Mt Richmond Properties fits with our green development strategy and affords us flexibility to support the growth of existing tenants’ needs and potential new tenants. The acquisition provides an acceptable initial holding yield and positive cashflow. The sites are close to the Auckland CBD with strong arterial network connections. The redevelopment potential of the large sites provide Argosy with the opportunity to create long term value and drive earnings and capital growth. Ultimately, this will help underpin sustainable dividends for shareholders.”

More information on this acquisition is contained in the Appendix to this release.

#### Sale of Albany Lifestyle Centre

Argosy continues to market the Albany Lifestyle Centre (**ALC**) for sale. Argosy is in active negotiations with one party and has very strong interest from others. The property has been reclassified as non Core as it no longer meets Argosy’s investment policy framework. The low interest rate environment has heightened investor interest in commercial real estate which continues to be favourable for vendors.

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Separate to the ongoing sale process, the deposit of \$4.5 million paid by the original purchaser, CPG Management Limited (**Cook Group**) who nominated APF Nominee Limited as custodian for Augusta Property Fund, has been forfeited and will be treated as distributable income by Argosy in FY21. Any receipt of payment for damages from Cook Group will also be treated as distributable income.

### **8-14 Willis Street/360 Lambton Quay Wellington**

Following recommencement of works after emerging from the Covid-19 related lockdown, Argosy's green development at 8-14 Willis Street/360 Lambton Quay continues to progress.

The project will now also include an 11<sup>th</sup> floor to the 8-14 Willis St building at an additional cost of \$6.8 million. The tenant, Statistics New Zealand, will pay gross rent of \$539 per m<sup>2</sup> for the additional space of 1,175m<sup>2</sup>. The yield on incremental cost is 7.2%.

The development was forecast to complete in August 2021. However, supply chain delays arising from Covid-19, design changes and the additional floor have resulted in a new expected programme completion date of February 2022.

The company has discontinued negotiations with a major international retailer for the space at 360 Lambton Quay. However, Argosy is currently working with a number of interested parties for the available space.

### **7 Waterloo Quay Wellington (7WQ) – Leasing, Façade Works and Insurance Claim Update**

7WQ is now 82% leased by rental income and Argosy is in discussions with several potential tenants (including the Crown) for the remaining 3,650m<sup>2</sup> of space on Levels 9, 11 and 12.

The exterior façade of the building requires additional work and Argosy expects this to cost approximately \$10 million (this work does not relate to the insurance claim referred to below). The timing of any works will be considered around the programmed removal of the tower scaffolding which is currently set for March 2021.

Argosy continues to work with insurers towards resolution of its insurance claim.

- The total claimed for material damage to 31 May 2020 is \$46.9 million. These costs relate primarily to urgent reinstatement works required to make damaged levels of the building available for reoccupation and were not able to be agreed with insurers in advance. Further claims will be made in respect of additional reinstatement works as costs are incurred.
- Claims have been submitted to 31 May 2020 for business interruption costs (loss of rents, additional costs and claims preparation) totalling \$15.0 million. The main component of this is loss of rents (\$14.3 million) and no further claims in respect of loss of rents are expected.

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- Argosy has recognised payments from insurers of \$24.0 million (after a \$4.9 million deductible) in relation to its interim claims. Of these, \$10.9 million has been allocated to reinstatement of earthquake damage, \$1.8 million to expense recoveries and \$11.3 million to loss of rents.

### **Covid-19 Update**

Argosy continues to work closely with those of its tenants who have been challenged by Covid-19 disruptions. Argosy has paid and provided for \$3.5 million in rental abatements, including \$0.4 million for the second Level 3 restrictions affecting Auckland.

### **Interim Valuations**

Following recent market property sale transactions and improved leasing activity, the Board and Management engaged Colliers International New Zealand Limited (**Colliers**) to review key valuation metrics in order to undertake a high-level desktop review of the property portfolio as at 30 September 2020, as has been Argosy's practice over the last few years. Colliers has not re-inspected the properties and did not undertake full market valuations. However, Colliers did undertake other relevant investigations, including considering any tenant changes, assessing market rentals and reviewing capitalisation rates in order to determine the desktop value of Argosy's properties.

The desktop valuations have been received but are yet to be finalised. Argosy expects any aggregate change to be positive.

## Appendix – Mt Richmond Properties

### Location:

The properties are located in the central industrial precinct of Mt Wellington, 15km from Auckland City. The sites (highlighted in **red below**) are situated between Great South Road and Mt Wellington Highway and are 2 km from the Mt Wellington Interchange.

The properties are also located close to three existing Argosy properties in Bell Ave – highlighted in **green below**.

The locality is dominated by medium to large modern warehousing, mainly used for warehousing and distribution. The trend in the area is for lighter type industry with heavier industry converging toward the south east.





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## Site Details:

The land comprises two titles, 8-14 Mt Richmond Drive and 2 Doraval Place.

**8-14 Mt Richmond Drive.** The site is a regular square shape comprising 3.42 hectares. It is largely flat with access from Mt Richmond Drive.

**2 Doraval Place.** This site is irregular consisting of 7.22 hectares. Two thirds of the site is flat and the remaining third to the north slopes up to the access on Mt Wellington Highway.



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## ENQUIRIES

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