23 May 2019

MARKET RELEASE

ARGOSY 2019 ANNUAL RESULT – A CLEAR WAY FORWARD

FOR THE 12 MONTHS TO 31 MARCH 2019

Argosy will present the 2019 annual results via a teleconference and webcast at 10am today. Please visit https://services.choruscall.com.au/diamondpass/argosy-239487-invite.html or dial **0800 122 360** and quote the conference **ID 239487**. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited (Argosy or the Company) has reported its results for the 12 months to 31 March 2019.

Highlights

- **Net distributable income[1] up 5.0%;**
- **Net distributable income per share up 4.8%;**
- **A full year revaluation gain of $70.5 million, an increase of 4.3% on book value;**
- **Portfolio metrics in excellent shape with WALT at 6.1 years;**
- **Divestment of $45.4 million of non Core assets significantly above book values;**
- **Continued solid progress at 7 Waterloo Quay;**
- **Strategic acquisitions of $35.3 million, adding value to adjacent sites and underpinning longer term strategic growth opportunities;**
- **Diversified term debt with a successful $100 million 7 year green bond offer;**
- **Full year dividend of 6.275 cents per share delivered, an increase on previous guidance;**
- **Lift in net tangible assets (NTA) to $1.22 from $1.12 at the end of the prior period.**

Peter Mence, Argosy's Chief Executive Officer said "We are pleased to have delivered a solid full year result with a number of highlights across the business. Rental income, earnings and distributable profit all improved on the back of strong leasing and rent review outcomes during the year. Our portfolio metrics have been maintained or improved and the quality of our buildings is high. We are pleased to report year end occupancy at 97.7% and a weighted average lease term (WALT) of 6.1 years. Furthermore, our revaluation gain of $70.5 million for the year to 31 March reflects the strong operational results delivered by the management team during the year. We also continued to make solid progress at 7 Waterloo Quay. Looking ahead to FY20 and beyond we are excited about the opportunities we see to ensure the sustainability of the business and we will continue to deliver on our strategy."

Chairman Mike Smith said "It has been an excellent year where we have delivered across all elements of the business. For the financial year Argosy delivered a total shareholder return of 35.1%, outperforming the property sector by 11.1%. We have continued our focus of greening the portfolio to deliver high quality buildings and have complemented this with the inaugural green bond for the property sector. Our successful $100 million 7 year green bond offer was very well received by investors. Management has continued to reposition the portfolio extremely well through the combination of strategic acquisitions, strategic developments and the ongoing divestment of non Core assets above their book value. Operationally, the team has achieved some great leasing outcomes through the year and continued to address key portfolio vacancies.

[1] Profit before tax and distributable income are alternative performance measures used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Note 23 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Management's focus on organic growth opportunities will continue and we have recently announced some green developments which are underway or planned. These will position Argosy very well for the long term.

Our Create, Manage, Own framework, which complements our overall Investment Strategy and Investment Policy, articulates what we do in a transparent way for all our stakeholders to understand. Ultimately, Argosy is about Creating a sustainable business and incremental value, Managing the business for all our stakeholders and Owning the right assets in the right locations. It's a simple message and very clear way forward.

With a strong finish to the FY19 year, we are pleased to be able to announce a full year dividend of 6.275 cents per share for this financial year. The increase above guidance reflects our ongoing belief that investors should share in the continued strength of the business. However, we are also cognisant that we must maintain our momentum towards an Adjusted Funds from Operations (AFFO) based dividend policy over the medium term. The dividend for FY20 is therefore expected to be maintained at 6.275 cents per share."

Financial Results

Statement of Comprehensive Income

For the year to 31 March, Argosy reported net property income of $102.5 million for the period, which includes rental loss recoveries from insurers, and is 1.5% higher than the previous period.

Administration expenses were up on the previous period primarily due to additional resourcing/restructuring costs across the business.

Interest expense of $24.3 million was down 4.9% on the previous period as the interest on higher average debt was offset by interest rate savings and higher capitalised interest on developments.

The valuations for the period to 31 March were performed by Colliers International, Jones Lang Lasalle and CBRE. The valuations showed further evidence of improved market conditions since the last desktop valuation performed at the half year. The total revaluation gain for the 12 months to 31 March 2019 was $70.5 million, or 4.3% above book value. The portfolio is 1.3% under-rented excluding market rentals on vacant space.

The divestment of non Core assets such as Wagener Place (Auckland), 626 Great South Road (Auckland) and 31 El Prado Drive (Palmerston North) resulted in a total net gain of $6.1 million over book values.

Net profit after tax was $133.7 million compared to $98.2 million in the previous year.

Distributable Income

For the year ending 31 March gross distributable income was $67.3 million which was 2.6% higher than the previous year. Gross distributable income per share was 8.14 cents per share compared to 7.95 cents per share in the previous year, up 2.4%.

Net distributable income increased by 5.0% to $57.4 million compared to the previous year. Net distributable income per share increased 4.8% to 6.94 cents per share from 6.62 cents per share in the previous year.

Valuations

The independent work performed and subsequent revaluation resulted in an uplift of $70.5 million, or a 4.3% increase on book values. As a result of the revaluation gain, Argosy's NTA has increased to $1.22, 9% up from $1.12 at 31 March 2018.

Following the revaluation, Argosy's portfolio shows a contract yield on values of 6.41% and a yield on fully let market rentals of 6.65%.

Portfolio Activity

Leasing and Rent Reviews

Argosy's strong leasing and rent review results for the 12 month period have continued to be underpinned by robust Auckland and Wellington property market fundamentals. For the year to 31 March 2019, Argosy completed 44 lease transactions on 81,274m2 of net lettable area, including 21 new leases, 12 renewals and 11 extensions.

Significant leasing transaction successes over the financial year include;

107 Carlton Gore Road, Auckland	*Housing New Zealand*	*12 years*
320 Ti Rakau Drive, Auckland	*Bunnings Limited*	*10 years*
252 Dairy Flat, Auckland	*Albany Toyota*	*10 years*
147 Gracefield Road, Wellington	*Winstone Wallboards*	*9 years*
Albany Lifestyle Centre, Auckland	*E Road Limited*	*9 years*
Albany Lifestyle Centre, Auckland	*Peterken Enterprises Limited*	*6 years*
302 Great South Road, Auckland	*McDonalds Restaurants NZ Limited*	*6 years*
320 Ti Rakau Drive, Auckland	*Super Cheap Autos*	*5 years*

Following an extremely busy year of leasing activity, Argosy maintained a high occupancy level and at 31 March 2019 occupancy was 97.7% versus 98.8% at 31 March 2018.

We are pleased to announce a new 12-year lease to Housing New Zealand at 107 Carlton Gore Road, Newmarket. The lease for the entire 6,100m2 building is on the back of a $12.0 million redevelopment and refurbishment project which will see the building target both Green Star and NABERSNZ ratings. Read more about this under Value Add developments below.

We have continued to progress leasing at 23 Customs Street, Auckland. We have halved vacancy to 1,500m2. Only levels 6 & 7 and part of level 13 remain vacant and we continue to see interest for this space.

With the successful completion of a number of longer leases with larger tenants, Argosy's WALT at 31 March 2019 was 6.1 years (6.1 years at 31 March 2018). As a management team its very satisfying to deliver a portfolio WALT for the second consecutive year above six years.

For the financial period, we completed a total of 103 rent reviews on $39.4 million of existing rental income. Rental growth of 4.0% was achieved or 2.8% on an annualised basis on all rents reviewed. The industrial portfolio accounted for 48% of the total rental uplift on 50% of the rent reviewed (30 reviews). The balance was split between office (30%) and retail (22%). The combination of ongoing favourable market fundamentals and sound asset management has helped deliver strong rental growth results. This has been a key contributor to the improvement in net property income for the year.

For the 12 months to 31 March 2019, approximately 42% of all rents reviewed (by income) were fixed reviews, 29% were market reviews and 29% were CPI based.

Acquisitions and Value Add Developments

Ongoing tightness across the New Zealand commercial property markets continued over the second half of the financial year. Despite this, several strategic acquisition and Value Add development opportunities have arisen. In particular, the Wellington office market is delivering some attractive long term opportunities for Argosy.

Over the year, Argosy acquired two properties totalling $35.3 million, being 11 Coliseum Drive in Albany (The Warehouse), for $26.7 million and 133 Roscommon Road, Wiri, for $8.6 million. The Warehouse acquisition allows us to consider several long-term organic growth options across the entire Albany Mega Centre site. The Roscommon Road acquisition is a freehold 15,838m2 industrial yard. The site is leased to NZX listed Turners Automotive Group on a 15 year lease, providing a holding return of 5% with fixed reviews of 2.5% per annum, with a market review in year six. Subsequent to year end, Argosy acquired 54 Jamaica Drive, Grenada, Wellington, for $3.5 million. This property is adjacent to existing Argosy owned development land at 56 Jamaica Drive and is currently leased to Big Chill with 4.5 years remaining on the lease. With Big Chill's current facilities at capacity, Argosy is progressing discussions and is planning a development on the vacant land to support Big Chill's growing business.

The initial acquisition coupled with the development opportunity delivers upside value to three contiguous sites owned by Argosy. These three transactions are good examples of our strategy in action and how we take a long term approach to creating value for Argosy and its shareholders.

Value add developments

180 Hutt Road, Wellington - Placemakers

Argosy's $10.3 million development and upgrade of the Placemakers property in Hutt Road, Wellington, is progressing well. Stage 1 comprising 1,300m2 of showroom and office was completed recently. Stage 2 works, comprising the drive through warehouse and hardstand area will be complete by December 2019. Once these stages are completed, and subject to market demand, works will commence for additional bulk retail space on the vacant site of approximately 2,000m2. This project will be another green development for Argosy, targeting a 4 Green Star Industrial Built rating.

107 Carlton Gore Road, Auckland - Housing New Zealand

Argosy is pleased to announce that Housing New Zealand Corporation (HNZC) will enter into a new 12 year lease commencing 1 March 2020. The lease for the entire 6,100m2 of net lettable area will commence following a $12.0 million dollar building upgrade expected to take approximately six months. The scope of works is similar to the 82 Wyndham Street (5 Green Star Rating) building upgrade completed in 2018, and includes new lighting, air conditioning systems, seismic restraints, foyer refurbishment, end of trip facilities (showers, changing facilities and bike parks), new bathrooms and lift replacement. Upon completion, 107 Carlton Gore Road will be an A Grade building. We will target a Green Star Office Built rating and a NABERSNZ Base Building Rating for this property with a seismic rating of 100% NBS. The end value of the development is expected to be $44.6 million.

8-14 Willis Street, Wellington - Statistics New Zealand.

Argosy recently announced it is undertaking a $64 million development at its 8-14 Willis Street property in Wellington's CBD. The development will create a substantially new 11 level, 11,800m2 building that will target a 6 Green Star Built rating and 5 Star NABERSNZ energy efficiency rating. In addition, Argosy has entered into a new 15 year lease with the Crown (Statistics New Zealand) to occupy the entire building, other than the 500m2 ground floor retail component. Construction is expected to take 24 months and be completed by April 2021. On completion 8-14 Willis Street is expected to have an independent valuation of $94 million. The development is projected to deliver an internal rate of return of 8.2% and a 7.2% initial yield.

Stewart Dawsons Corner, Wellington

Argosy is very close to finalising a lease with a major international retailer for this development.

Argosy Chief Executive Officer Peter Mence said "When we look at all of these opportunities, we are very excited about working with all of our new partners. These developments are consistent with our strategy of creating value through the execution of Value Add opportunities. These green developments will see Crown employees benefit from refurbished buildings delivering modern, functional and appealing workspace environments. Argosy investors will benefit from new, high quality tenants and modern buildings in the portfolio together with long leases and the cashflow certainty they bring."

Argosy will continue to pursue these green focused Value Add opportunities to improve overall portfolio quality and add value to shareholders.

Divestment of non-Core Assets

Strong property market fundamentals through the year made it favourable for Argosy to divest non Core assets across Auckland, Wellington and regional markets. Property market conditions remain attractive for vendors allowing us to divest;

- Wagener Place in Auckland for $31.0 million, 13% above book value;
- 626 Great South Road, Greenlane for $10.6 million, 8% above book value; and
- 31 El Prado Drive in Palmerston North for $35.5 million, 25% above book value.

The unconditional sale of 1478 Omahu Road in Hastings did not settle as expected and this property has been reclassified back to non Core from held for sale.

The continued divestment of regional assets means that Argosy has only four properties outside its core Auckland and Wellington markets. At year end, Argosy has categorised approximately 8% or $136.8 million of the portfolio as non Core, which includes the Albany Lifestyle Centre. Argosy will continue its divestment programme over the next 12-18 months to take advantage of current market conditions.

7 Waterloo Quay

Argosy's 14 level property at 7 Waterloo Quay in Wellington sustained damage in the 7.5 magnitude Kaikoura earthquake on 14 November 2016. Soon after the earthquake independent engineers confirmed that the building remained structurally sound, but it suffered damage to fit out and services. Argosy is working with its insurers to progress a significant insurance claim in respect of the earthquake damage and loss of rents.

As with many significant insurance claims for earthquake damage, there will be debate with insurers over the extent of damage, the scope of repair works, the repair methodology and the extent of insurance cover. To support its claim, Argosy commissioned a comprehensive damage survey of 7 Waterloo Quay, detailed damage assessment reports, corresponding reinstatement scopes and a comprehensive reinstatement cost estimate. Argosy recently submitted its cost estimate to insurers and is waiting for a response.

Argosy has also submitted interim claims in respect of reinstatement costs it has incurred and for loss of rents;

- Claims for the cost of reinstatement works undertaken have been submitted based on costs actually incurred. The total claimed from inception of the claim to 31 March 2019 is $39.6 million. These costs relate primarily to limited 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 reinstatement works as costs are incurred. We are currently reconciling the above reinstatement costs incurred with the cost estimate submitted to insurers which is based on damage to the building and our insurance policy.

- Claims have been submitted for loss of rents for the two-year period from the date of the earthquake to mid-November 2018, totalling $14.2 million. No further claims in respect of loss of rents are expected.

- From inception of its claim to 31 March 2019 Argosy has received progress payments from insurers of $20.9 million (after a $4.9 million deductible) in relation to its interim claims. Of these, $10.8 million has been allocated to reinstatement of earthquake damage, $1.6 million to expense recoveries and $8.5 million to loss of rents.

- In the period to 31 March 2019, Argosy has recognised progress payments from insurers of $11.1 million. Of these $8.5 million have been allocated to reinstatement of earthquake damage and $2.6 million to loss of rents.

Restructure of New Zealand Post leases

Damaged levels 1-4 and 7 had been leased to New Zealand Post (Post) until December 2025. As part of a lease termination agreement, Post paid a termination fee of $2.9 million to Argosy on 30 November 2018 and relinquished these floors. This amount, although calculated based on the previous rent from levels 2-4 and 7 through to 31 August 2019, is required by accounting standards to be fully recognised in the year to 31 March 2019.

Reinstatement and seismic works to meet occupancy requirements of prospective tenants

Demand for space at 7 Waterloo Quay from late calendar 2019 has dictated the reinstatement timeframe. To meet demand, Argosy has carried out limited reinstatement works, necessary for reoccupation of the building, without agreement from its insurers. With the exception of level 12, these works were substantially completed by March 2019. Level 12 is expected to be completed by March 2020.

The extent and timing of any further reinstatement works contemplated in the comprehensive repair scopes submitted to insurers will be dependent on reaching agreement with insurers. As with many significant insurance claims, it is uncertain when agreement with insurers will be reached.

With recent changes to the assessment of seismic resilience, seismic strengthening of the building is also considered necessary to maximise the potential from the current strong leasing environment. It is expected that these works will cost approximately $27 million and be complete by November 2019.

The office leasing environment in Wellington remains very favourable and Argosy is currently in lease negotiations with a number of Crown organisations. These negotiations are at an advanced stage.

Capital Management

At 31 March 2019, Argosy's debt-to-total-assets ratio, excluding capitalised borrowing costs, was 35.6% versus 35.9% at 31 March 2018 year end. The ratio reflects the net impact of acquisitions and developments during the period, offset by divestments and revaluation gains.

In October 2018, Argosy added $25 million to its banking facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and The Hongkong and Shanghai Banking Corporation. In March 2019, Argosy successfully completed a $100 million 7 year Green Bond offer just prior to its financial year end. As a result, Argosy cancelled $100 million of bank facilities that were due to expire in October 2021. Following this cancellation, the company's total bank debt facility was $550 million ($625 million at 31 March 2018).

Argosy's target gearing band is unchanged at 30% to 40% and continues to provide flexibility depending on financial and property market conditions. Argosy remains well within all bank covenants and currently sits in the middle of the target band. At year end, Argosy's weighted average interest rate was 4.75% versus 4.98% at 31 March 2018.

Dividends

A fourth quarter dividend of 1.5875 cents per share has been declared for the March quarter with imputation credits of 0.3026 cents per share attached. This brings the full year cash dividend to 6.275 cents per share. The fourth quarter dividend will be paid to shareholders on 26 June 2019 and the record date will be 12 June 2019. Argosy's dividend reinvestment plan remains suspended.

The Company remains absolutely focused on delivering sustainable dividends to shareholders. Based on current projections for the portfolio, the Board expects a full year 2020 cash dividend of 6.275 cents per share, consistent with this year. This reflects our wish for shareholders to continue to share in the positive results to date but allows us to maintain our momentum towards an AFFO[2] based dividend policy in the medium term.

Governance

The Board changes signalled in 2018 continued throughout 2019 with the appointment of three new Directors, the retirement of one Director and the resignation of two Directors. Chris Hunter retired as an independent director and subsequently Stuart McLauchlan was appointed as an independent Director. Mark Cross and Andrew Evans both resigned during the year with Chris Gudgeon and Mike Pohio being appointed as independent Directors of the Company.

Looking ahead, the upcoming Annual Meeting of shareholders is scheduled to be held at 2pm on 7 August 2019 at the Royal New Zealand Yacht Squadron, 101 Curran Street, Westhaven Marina, Auckland. Stuart McLauchlan, Chris Gudgeon and Mike Pohio will all retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election. In addition, Mike Smith and Peter Brook will also retire and be eligible for re-election.

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[2] AFFO (Adjusted Funds From Operations) is considered by some investors to represent a measure of dividend sustainability. The annual results presentation released today provides a reconciliation between net distributable income and AFFO.

Outlook

It is expected the next 12-24 months will see the continuation of low interest rates and a lower inflation outlook, along with a positive environment for real estate pricing. Economic growth is forecast to be in the 2.0% to 2.5% range over the medium term, which is lower than previously forecast but still positive. Lower migration, weaker business confidence and changing bank capital requirements, together with a weakening residential housing market are all economic headwinds which need to be carefully navigated.

Argosy is very well placed to weather the changing economic landscape over the medium term. It has a strong balance sheet and a growing, high quality portfolio of diversified properties with an increasing focus on sustainability and green assets. Our Value Add development pipeline will deliver further property, sector and tenant diversification to Argosy and its shareholders. The long-term nature of the leases entered into adds certainty and stability to our cashflows and earnings. Argosy will remain focused on addressing near term lease expiries within the portfolio and ensuring that our tenant retention rate remains high. We will focus on delivering on our strategy to support the creation of long term value for shareholders.

– ENDS –

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