21 May 2014

Argosy

MARKET RELEASE

ARGOSY ANNUAL RESULT

FOR THE YEAR ENDING 31 MARCH 2014

Argosy Property Limited ("Argosy" or the "Company") is pleased to report its results for the year ending 31 March 2014.

Argosy has continued its momentum with improved operating results and stronger portfolio metrics. Occupancy by rental increased to 98.7%, the weighted average lease term ("WALT") at 5.68 years is the highest in eleven years and the leasing profile continues to be well managed.

Highlights:

- **Valuation gain of $33.5 million, up 2.8% on book values**
- **Net distributable income increased to $50.0 million (increase of 18.4%)**
- **Net property income increased to $82.2 million (increase of 17.7%)**
- **Net profit after tax increased to $85.6 million (increase of 118%)**
- **Occupancy increased to 98.7%, up from 96.2% in prior year**
- **WALT increased to 5.68 years**
- **Acquisition of 4 high quality buildings in Auckland and Wellington**
- **Divestment of vacant land and building in Palmerston North as well as under yielding property in Auckland**
- **Successful completion of a 1-for-7 renounceable rights issue, raising $86.9 million**
- **Bank facility restructured on improved terms**
- **Debt-to-total-assets within target range at 36.5%**
- **Guidance to FY15 dividend of 6.0 cps, payable quarterly**

Financial Results

Profit before tax

Net property income for the year was $82.2 million (2013: $69.9 million), an increase of 18% primarily due to the extra income generated from the acquisitions throughout the year.

Profit before tax, after allowing for the non-cash impact of interest rate swaps and property revaluations, was $98.8 million compared to $38.7 million for the previous period.

Interest expense has increased by $1.7 million compared to the previous period. However, after removing capitalised interest of $2.3 million (2013: $4.1 million) relating to development activities, non-capitalised interest expense was $0.1 million less than the previous period. This reduction is partly due to the improved margins following the restructure of the Company's banking facility.

Distributable income

Net distributable income for the year was $50.0 million (2013[1]: $42.2 million), an increase of 18% on the prior period.

[1] The tax impact of depreciation recovered on the disposal of investment properties and taxable gains on disposal of properties held on revenue account have been included as an adjustment, consistent with industry practice and as agreed with bank financiers. Prior year distributable income has been restated to reflect this change.

Distributable income is a non-GAAP alternative performance measure used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Please refer to Note 24 of the financial statements released today for a full reconciliation between the two measures.

Capital Management

Capital raising
During the year, Argosy successfully raised $86.9 million of additional capital in a 1-for-7 pro-rata renounceable rights issue at a price above NTA. The funds were used to repay bank debt as well as providing the financial flexibility to pursue future opportunities.

Current leverage
Argosy's debt levels, excluding capitalised borrowing costs, were 36.5% of total assets (31 March 2013: 33.1%). The debt-to-total-assets ratio is within the targeted 35 to 40% gearing range.

Bank facility
In June 2013, the Company restructured and extended its syndicated bank facility. Following the restructure the expiry of the first tranche ($250 million) is 30 June 2016 and the second tranche ($250 million) is 30 June 2018. As a result of this restructure, Argosy is receiving margin and line fee savings (after including upfront fees) of $0.7 million per annum.

Argosy is currently in advanced discussions with its lenders to extend each tranche of the facility by a further year. It is expected that further margin and line fee savings of approximately $0.7 million (after upfront fees) will be achieved from June 2014.

Argosy continues to maintain strong relationships with its banking partners and remains well within all bank covenants.

Dividends
The Directors have announced a final quarter dividend of 1.50 cents per share plus imputation credits of 0.14 cents per share. The dividend reinvestment plan ("DRP") will continue with a discount of 1% applied to the price at which shares will be issued under the DRP. The record date is 10 June 2014 and the payment date will be 24 June 2014.

The Board is pleased to confirm that, based on current projections for the portfolio, a dividend of 6 cents per share is expected to continue for the year to 31 March 2015. It is anticipated that this will marginally exceed net distributable income in the 2015 year as Argosy returns to a tax paying position. While projections beyond that date are heavily dependent on the market and legislative environment, based on current conditions, it is envisaged that the current 6 cents per share dividend, paid from net distributable income, will be a minimum level for the years following the 2015 financial year.

Portfolio Activity

In general, the leasing environment has improved over the past year:

- net absorption has again been positive in the industrial and office sectors in Auckland, where the majority of Argosy's portfolio is located, and vacancy rates have fallen to levels that suggest potential for solid rental growth.
- occupancy enquiry from potential tenants has continued to be strong and incentive levels have reduced.

- the retail sector has improved and while this sector will continue to be challenged by increased internet sales and additional supply, current turnover levels are at encouraging levels.

Leasing
The management team has continued to focus on occupancy and near-term lease expiries with pleasing results. Occupancy (by rental) has improved to 98.7% from 96.2% at 31 March 2013. Outstanding lease expiries for the period to 31 March 2015 were 9.4% at 31 March 2014. This has since improved to 7.5% as at 30 April 2014.

During the year, 59 lease transactions were completed, including 39 new leases and 20 lease renewals and extensions. The WALT continues to improve and was 5.68 years at 31 March 2014, up from 5.24 years at 31 March 2013.

Acquisitions
The 2014 financial year has seen a number of successful acquisitions by Argosy.

In June 2013, the Company purchased the Auckland distribution centre at 80 Favona Road, Mangere for $74.0 million. This property is tenanted to Progressive Enterprises on an 11-year lease.

In July 2013, Argosy settled the purchase of 15 Stout Street, Wellington, for $33.2 million. This property is being extensively redeveloped. The property is leased to The Ministry of Business, Innovation and Employment on a 12-year lease.

In September 2013, Argosy settled the purchase of the Vector Centre at 101 Carlton Gore Road, Newmarket, Auckland, for $22.25 million. Vector Limited is the major tenant of this building on a 7.5-year lease.

Finally, in December 2013, Argosy settled the purchase of a brand new 20,677 square metre distribution centre at 19 Nesdale Avenue, Wiri, Auckland, for $38.0 million. The property is tenanted to Cardinal Logistics Limited on a 15-year lease.

Capital projects
Argosy has two major capital projects occurring at present.

The redevelopment of the newly acquired building at 15 Stout Street, Wellington is nearing completion and is expected to be officially opened in July 2014. The property was purchased for $33.2 million and has an upgrade cost of $46.6 million. A case study of this property can be found on pages 30 and 31 of the 2014 Annual Report.

New Zealand Post House, Wellington is also being upgraded by Argosy. This building was purchased in March 2013 for $60 million and has an upgrade cost of $40 million. New Zealand Post and Kiwibank tenant the building and will continue to do so throughout the course of the project. Argosy receives a return of 8% (in arrears) of its share of the upgrade costs until completion.

Divestments
In December 2013, Argosy divested the underperforming building at 56 Cawley Street, Ellerslie, Auckland for $10.375 million. The property had suffered from a long-term vacancy factor and had provided an unsatisfactory total return. The sale price represented 92% of its book value at the time.

Argosy sold 1.15 hectares of vacant land in Palmerston North for $1.27 million, which was above its book value. This sale settled in April 2014.

Subsequent to financial year end, the Company announced the sale of the vacant property at 537 Main Street, Palmerston North, for $2.2 million, which represented 99.4% of current book value. This property has underperformed relative to the rest of the portfolio. Settlement is due at the end of May.

Argosy also announced the unconditional sale of 8 Pacific Rise, Mt Wellington, Auckland, for $10.4 million, a 2.7% premium to the book value as at 31 March 2014. The property had suffered from long-term vacancy issues and a short WALT. Settlement is expected to occur in July 2014.

Following the settlement of these sales, 9% of the portfolio is considered neither Core nor Value Add and will be divested as market conditions allow.

Valuations

For the fourth year in succession the revaluation of the property portfolio has resulted in an increase in property values. The increase this year is $33.5 million, a 2.8% increase on book values (2013: $9.3 million). Argosy's portfolio, following the revaluation and including vacant land, shows a passing yield on values of 7.96% and a yield on the assessed fully let market rentals of 7.93%.

Strategic Review

Our portfolio investment strategy remains unchanged. Argosy's portfolio will consist of *Core* and *Value Add* properties. Core properties are well constructed, well-located assets which are intended to be long-term investments (>10 years). Core properties will make up 75 to 85% of the portfolio by value.

Core properties enjoy strong long-term demand (well-located and generic), a leasing profile that provides for rental growth of at least CPI and good structural integrity with minimal maintenance capital expenditure required.

Value Add properties are assets which, through skilled asset management, can increase future earnings and provide capital growth. Value Add properties will already be well located with the potential for strong long-term tenant demand. These properties are available for near to medium term repositioning or development with the view to moving into the Core category.

Governance

At the August 2013 Annual Meeting, Michael Smith and Peter Brook were re-elected as Independent Directors and new Directors Chris Hunter and Jeff Morrison were also elected as Independent Directors.

Outlook

As the country remains in a period of economic growth, the Board and Management consider that Argosy's prospects are equally positive.

The Company has a well-diversified portfolio of good quality and well located properties and a clear investment strategy that enables the Company to make the most of current economic conditions.

Argosy is, and will remain, invested in a portfolio that is diversified by sector, grade, location and tenant mix. The portfolio will be located in the Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.

The outlook for the property market is positive. Rates of enquiry are at levels that Argosy has not experienced since prior to the global financial crisis and there are signs of rental growth ahead. The management team will continue to focus on the leasing fundamentals as well as positioning the portfolio for the future.

Along with the continued focus on leasing, Management and the Board will continue to actively monitor the market and will actively pursue growth opportunities where these are consistent with the Company's investment strategy and accretive to shareholders.

– ENDS –

Press enquiries

Peter Mence
Chief Executive Officer
Argosy Property Limited
Telephone: 09 304 3411
Email: pmence@argosy.co.nz

Dave Fraser
Chief Financial Officer
Argosy Property Limited
Telephone: 09 304 3469
Email: dfraser@argosy.co.nz

Scott Lunny
Investor Relations Manager
Argosy Property Limited
Telephone: 09 304 3426
Email: slunny@argosy.co.nz

Argosy Property Limited

Argosy Property Limited is one of the largest diversified property funds listed on the New Zealand Stock Exchange. It has a $1.226 billion portfolio of 66 properties across the retail, office and industrial sectors. Argosy is, and will remain, invested in a portfolio that is diversified by primary sector, grade, location and tenant mix. The portfolio is located in the primary Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.