IN THIS ISSUE

Argosy

Investor Update

SEPTEMBER 2014

GRAND OPENING OF 15-21 STOUT STREET

In July the Honourable Stephen Joyce officially opened the newly refurbished building at 15-21 Stout Street, Wellington.

▲ **TOP** THE HONOURABLE STEPHEN JOYCE AT THE OFFICIAL OPENING OF 15-21 STOUT STREET, WELLINGTON.

OCCUPANCY

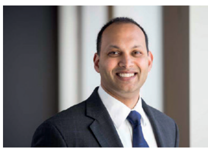
100%

LEASE TERM

12yrs

TENANT

New Zealand Government



SAATYESH BHANA
ASSET MANAGER

The building is the new home to the Ministry of Business, Innovation and Employment (MBIE), who have signed a 12 year lease with rent reviews to market.

The leasing was part of the new accommodation strategy for the Crown, managed by the Property Management Centre of Excellence.

MBIE plays a central role in shaping and delivering a strong New Zealand economy. It integrates the functions of four former Government agencies – the Department of Building and Housing, the Ministry of Economic Development, the Department of Labour and the Ministry of Science and Innovation.

Asset Manager, Saatyesh Bhana, says: “The property at 15-21 Stout Street is a great addition to Argosy’s portfolio and we are very pleased to have been able to deliver the project on time and on budget. MBIE is an outstanding tenant and one which enhances the overall tenant profile of the Company”. ●

People

SOLEI PAUL

Solei is one of Argosy's Property Managers and currently looks after 12 of the portfolio's properties. Solei, who is originally from Whakatane and has a Maori, Fijian and Scottish heritage, is a very talented individual who has a wide variety of hobbies including operatic singing, gardening and bartending. Solei won the New Zealand Bartender Award in 2012 which allowed her to compete in the International Bartenders Association competition in Beijing, China, where she finished second in the world.

Solei studied at Otago University, completing a Bachelor of Consumer and Applied Sciences in Biochemistry and Environmental Design in 2010.

Solei says "I am happy to say that I have been with Argosy for two years now and I enjoy applying the key Argosy values to my work with colleagues and tenants."

Annual Meeting

The Annual Meeting was held on 26 August 2014 at the Royal New Zealand Yacht Squadron in Auckland's Westhaven Marina. Chairman Mike Smith and CEO Peter Mence both gave addresses on the Company's performance during the 2014 financial year. Both Mike's speech and Peter's presentation can be accessed on Argosy's website at www.argosy.co.nz.

Three resolutions were passed at the annual meeting. Two directors, Mark Cross and Andrew Evans, were re-elected onto the Argosy board and the Board was authorised to fix the auditor's fees for another year.

Waitakere Mega Centre

In a continuation of Argosy's strategy of divesting non-Core assets, Argosy recently announced the sale of the Waitakere Mega Centre in Henderson, Auckland for $45.75m. The sale of this property doesn't settle until March 2015 and Argosy will manage the property in consultation with the purchaser in the period up to settlement.

The Waitakere Mega Centre was designated as non-Core as part of Argosy's individual property strategy review earlier this year. The sale is expected to reduce the Company's retail property weighting to within the targeted 15 to 25% band.

Along with the settlement of 537 Main Street, Palmerston North and 8 Pacific Rise, Mt Wellington, Auckland, Argosy has now divested $58.1 million of non-Core assets in FY15, leaving approximately 6% of the portfolio remaining in the non-Core designation.

DEAR SHAREHOLDER

The quality of the built environment continues to be an issue that can cause today's consumer to wonder.

Mankind has been creating buildings for shelter, defence, and ego for centuries and while the motivations for doing so have not changed over this time, the method of constructing them has. There are many examples of structures that have lasted over a thousand years – alright, not in New Zealand – yet in today's world we are content to demolish buildings that are a mere 50 or 60 years old. In most cases because they are no longer fashionable, or they have simply not lasted.

Let's be honest, Wellington does not need a new office tower. What we do need to do is learn to reuse and redeploy our existing buildings so that we do not create obsolescence and do not have to bear the environmental costs of demolition and reconstruction. This propensity to build short term buildings is of course not good for the environment because the carbon footprint of demolition and rebuilding is significant in comparison to operating buildings.

There are many examples of planned obsolescence in our throwaway society, and our landfills are full of appliances that were designed to fail. The buildings we create should not join this commercial decadence. We must focus on a sustainable future and "throwing away" buildings because they are out of fashion is an environmental idiocy that we cannot afford.

Maybe I am getting old but it seems to me that there are a lot of buildings being demolished at present that I can remember being built. Equally if we were to look to England and Europe there appear to be a large number of buildings that have outlasted several generations.

To be fair some of the demolition jobs are absolutely understandable, but only really because the buildings were poorly conceived, poorly constructed, or poorly maintained in the interim – in some cases all three! Yet we continue to do this in spite of the ease with which it could be avoided.

At the same time of course we have a taxation regime that appears to discourage retaining buildings by declaring that commercial buildings do not depreciate. It does not matter where you do your research, it is hard to sustain this argument,

PETER MENCE
CHIEF EXECUTIVE OFFICER

but the best illustration is in the frequent issues created by leasehold property. It is clear that land, in general, will appreciate, and that buildings, in general, will depreciate.

This brings us neatly to seismic performance of buildings and the costs of their upgrade. Currently we have an odd situation of legislation out of step with commercial reality. An "earthquake prone" building is defined as being one of less than 33% of the current building code in terms of seismic performance. Unfortunate owners who are in possession of such a building will have 25 years to bring them above 33% of the current code.

In most cases commercial reality is that landlords will struggle to find tenants to occupy their property where the building is determined to be earthquake prone, and those who own their own property may struggle to find customers. I would probably consider a different hotel if I was walking past a sign telling me that my first choice was an earthquake prone building.

The costs of upgrade are in many cases significant and there is no deductibility for these costs. Owners will have to pay the local authority fees for the work and of course there is an ultimate benefit in the GST take from the increased consumption as owners look to pass some of the costs on to customers or tenants. A Wellington Real Estate expert opined recently that there would be a number of properties looking for a new owner shortly for exactly this reason.

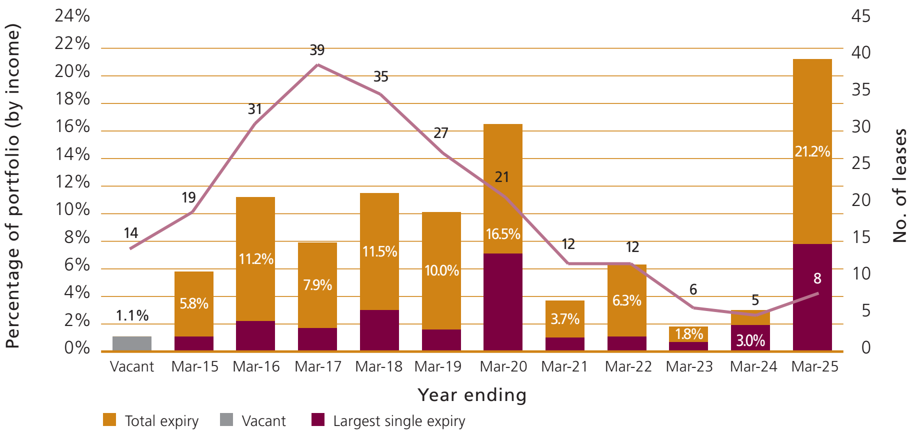
Then let us consider the many historic towns outside of the main cities. Oamaru, Kaitaia and Whanganui in many cases will have buildings that are simply uneconomic to strengthen, given high costs of upgrade and lesser incremental increases in returns. Are we prepared to see these buildings demolished? Or is that just progress?

Leasing Update

The New Zealand property market, particularly in Auckland, is in very good shape at the moment and this is reflected in the Argosy portfolio. Occupancy has continued to improve since year end with a current occupancy rate at 31 July of 98.9%, up from 98.7% at the end of March. Only 5.8% of the portfolio's leases expire in the current financial year, down from 9.4% at 31 March as some key lease renewals were achieved in the early part of the year.

Continuing this momentum, management is currently finalising the renewal of the largest single expiry of the 2015 financial year.

The chart below shows Argosy's lease expiry profile (by rent) as at 31 July 2014.



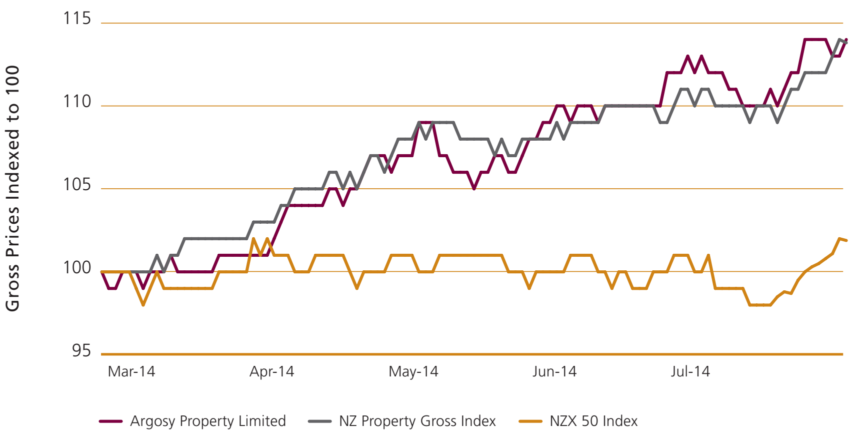
The number above each bar denotes the total tenant expiries per year (excluding monthly carparks and tenants with multiple leases within one property)

Impressive Returns From Property Sector

As at 31 August 2014, the listed property sector has produced a total return of 13.7% since 31 March 2014, outperforming the NZX50 which returned 1.6%. What is more pleasing for Argosy shareholders is that over the same timeframe, Argosy has slightly outperformed both indexes with a total shareholder return of 13.9%.

The improving fundamentals of the property market, the defensive quality of the cash flows and attractive dividends yields of the listed property stocks are all assisting in making the property sector more attractive than the general equity market at present.

As a result of current market conditions, the Board has commissioned property valuations to be completed as part of the Company's interim financial results as at 30 September 2014.



SOURCE: IRESS

Te Puni Kōkiri Merit Award

Argosy's building at 143 Lambton Quay, Wellington, was recently presented with a merit award in the Commercial Office Property Award section of the Property Industry Awards 2014 hosted by Property Council New Zealand.

The awards celebrate positive contributions to the property sector and attract submissions from the country's finest commercial property developments.

The building, which is the first Wellington building to gain a 5 Green Star NZ – Office Built Rating, is tenanted to Te Puni Kōkiri (the Ministry for Māori Development which leads Māori Public Policy and advises on policy affecting Māori wellbeing), on a six year lease.

143 LAMBTON QUAY, WELLINGTON ▲

Refinancing

Argosy recently successfully extended each tranche of its banking facility at a reduced cost by a further year. The first tranche of $250 million expires in June 2017 and the second tranche, also of $250 million, expires in June 2019. Margin and line fee savings of approximately $0.7 million (after upfront fees) will be achieved from June 2014.

The banking facility is spread across the three major banks of ANZ New Zealand, Bank of New Zealand and Hongkong and Shanghai Bank.

PORTFOLIO UPDATE AS AT 31 JULY 2014

PROPERTIES

64

TENANTS

215

WALT

5.60yrs

Weighted average lease term of 5.60 years

PORTFOLIO

$1.23b

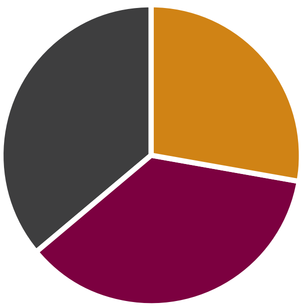
Total portfolio value of $1.23 billion

OCCUPANCY

98.9%

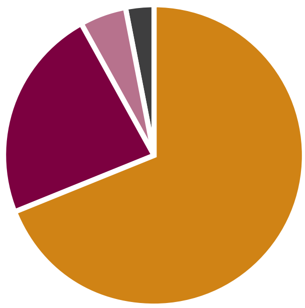
Occupancy (by rent) of 98.9%

TOTAL PORTFOLIO VALUE BY SECTOR



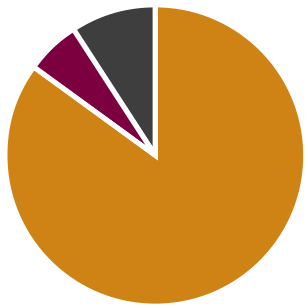
- 28% Retail
- 36% Office
- 36% Industrial

TOTAL PORTFOLIO VALUE BY REGION



- 69% Auckland
- 23% Wellington
- 5% Palmerston North
- 3% Other regional

PORTFOLIO MIX



- 85% Core
- 6% Value Add properties
- 9% Properties and land to divest

Dividend

The **FIRST QUARTER DIVIDEND** for the 2015 financial year of 1.50 cents per share, with imputation credits of 0.4884 cents per share attached, will be paid on 24 September 2014, with the record date being 10 September 2014. 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 2015. While projections beyond this date are heavily dependent on the market and legislative environment, based on current conditions, it is envisaged that the current 6 cents per share, paid from net distributable income, will be a minimum level for the 2016 financial year and beyond.

IMPORTANT DATES

QUARTER 1 DIVIDEND PAYMENT
September 2014

INTERIM RESULTS ANNOUNCEMENT
19 November 2014

QUARTER 2 DIVIDEND PAYMENT
December 2014

2015 INVESTOR ROADSHOW
Early 2015

QUARTER 3 DIVIDEND PAYMENT
March 2015

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