Argosy

Investor Update

SEPTEMBER 2015

ARGOSY ACQUIRES OFFICE PROPERTY IN AUCKLAND

As part of our strategy of recycling of the portfolio, Argosy announced in August the successful acquisition of 8 Nugent Street, Grafton, Auckland for $42 million.

▲ ARGOSY'S RECENTLY ACQUIRED PROPERTY AT 8 NUGENT STREET, GRAFTON, AUCKLAND.

This high quality, fully leased office property, which was built in 2009, is a five level, four Green Star designed office building with a net lettable area of 8,125 square metres. It contains a diversified group of 11 tenants and has a weighted average lease term of 5 years.

The property is home to a diverse range of tenants that include New Zealand Cricket, Mobil Oil, Pfizer New Zealand and The Neil Group. The Grafton area is one which Argosy is already familiar with. Argosy owns the adjacent property at 99 Khyber Pass Road as well as the property opposite at 25 Nugent Street, where the front showroom has recently been retrofitted for Studio Italia.

The area has benefitted from a recent surge in refurbishment and modernisation of older buildings and is well located close to three motorway interchanges and to the Newmarket shopping precinct.

Argosy Asset Manager Tony Frost says, "8 Nugent Street is a top quality property in a good Auckland location that Argosy already operates in. We are very happy to be able to add this building to our portfolio."

The acquisition fits into Argosy's investment strategy of having a portfolio that is primarily in the Auckland and Wellington regions, with a target of 35-45% of the portfolio in the office sector. ●

TONY FROST

ACQUISITION COST

$42m

NET LETTABLE AREA SQM

8,125

WALT

5 years

TENANTS

11

SNAPSHOT

People

FROM LEFT: Linda Chen, Iris Lau, Simran Chahal, Arleen Canlas, Cecilia Chan.

In our bi-annual Investor Update we like to introduce members of the Argosy team so that shareholders can see a little bit about what goes on behind the scenes at Argosy. The finance administration team consists of five hardworking individuals with many years of collective experience in all matters of accounting and property administration. The team is led by Cecilia Chan CA, Argosy's Property Administration Manager, who has been with Argosy for more than 10 years. The team also includes Iris Lau CA, the Company's Property Accountant, and Simran Chahal, Arleen Canlas and Linda Chen.

This team takes their role of handing the Company's finances very seriously. While not being in a highly visible role outside of the office, they are the friendly voice on the end of the phone who deal with tenant and supplier queries on a daily basis.

As a group, they enjoy operating in a nice working environment where everybody greatly appreciates their contribution to the Company.

Annual Meeting

This year's Annual Meeting was held on 18 August 2015 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 2015 financial year.

Mike's speech and Peter's presentation can both be accessed on Argosy's website at www.argosy.co.nz.

At the meeting, both Chris Hunter and Jeff Morrison were re-elected onto the Argosy board.

Recent Disposals

A key part of Argosy's strategy is to dispose of non Core properties that no longer fit within the Argosy investment criteria. During FY15, a number of non Core properties were sold, including the Waitakere Mega Centre and 8 Pacific Rise, both in Auckland. This activity has continued in the FY16 financial year with the disposal of the Porirua Mega Centre for $11.5 million, with settlement to take place in October 2015, and 65 Upper Queen Street in Auckland for $6.5 million, with settlement due to take place in December 2015. Argosy has also settled the disposal of the small industrial property at 1 Allens Road in Auckland and has an unconditional contract (subject only to title) to sell 7 El Prado Drive in Palmerston North.

CEO UPDATE

DEAR SHAREHOLDER

As the property market in New Zealand continues to improve we are often asked if we are close to the peak of the cycle, and whether property values are likely to decline. It is of course a fair question and one worthy of asking at any point in the market.

Of course property values could always go down, however the likelihood of this occurring is worthy of debate. Firstly let us draw a solid line between residential property and commercial property. There is much airtime given to the heat in the residential property market in Auckland at present and it is fair to say that Auckland residential prices look high by almost any measure that you wish to quote. What is keeping these prices on the rise is an excess of demand over supply, and the continued growth adds fuel to the fire by making residential property appear to be attractive from a capital gain perspective rather than simply providing accommodation as a house. That is, it increases the demand.

Commercial property is affected by the supply and demand equation as well, but the drivers for the demand and the restrictions on supply are different.

At its base, commercial property is an accommodation provider for businesses in New Zealand and as long as those businesses require more space than is available in the market there will be development and prices will rise. Naturally it is not quite that simple, but the key point is that the property market is a responder and should not be a driver of growth. At its best it is an enabler – enabling business to grow by providing appropriate accommodation.

There are two primary areas to consider in a property investment; income and capital. These are related by probability of income change and by interest rates, but can be considered separately. Looking first at the income side, (simply put that is rental return after deduction of costs) we consider the risks to this return. What is the probability of rental increases or decreases in the future? While individual properties will be affected by their specific situation and leases, to consider the market we focus on the market rental and the level of supply, current and forecast, to determine our supply and demand balance.

PETER MENCE
CHIEF EXECUTIVE OFFICER

Where are we now? Very generally the market looks balanced. There are specific areas that are worthy of a close watch. At Argosy we have considered the continuing erosion to the retail market of internet sales as having the possibility of reducing affordability and have reduced our weighting to this area. Auckland prime quality offices are at risk of moderate oversupply, and in Wellington buildings that are not up to an acceptable seismic resilience or are unlikely to suit the major occupiers are less attractive.

Turning to the capital side of the investment, we are interested in the relative attraction of property in New Zealand relative to other potential investments and investment demand in general. Again it is supply and demand of course. If there is more demand for property investments in New Zealand, then we would expect to see value increases, and less demand then decreases will be expected.

Where are we now? There is more demand than supply and this is not expected to change. Incrementally we expect that Auckland will remain strong and that Wellington will show growth.

So are we at the peak? Not yet. As long as the economy requires more space than the property market provides and as long as more investors want to acquire property than there are investments available, it is hard to see a decline in values.

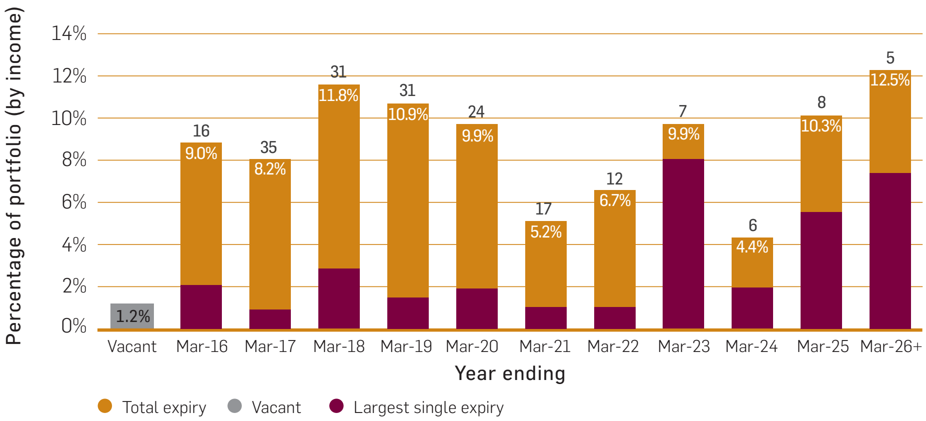
For us, it is preferable to see growth in rentals because that is what drives growth in dividends. Higher values because we have higher rentals, is preferable to, higher values because more investors want to buy property. ●

Leasing Update

The Auckland commercial property market has continued to strengthen as demand for quality space exceeds supply at present. This is especially evident in the CBD office and prime industrial property sectors. This has led to demand flowing into lesser quality space and a surge in development activity.

Argosy's lease expiry profile has improved since year end, with current year expiries now 9% of the portfolio, down from 11.8%.

AS AT 31 JULY 2015



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

Argosy scoops a number of NZ Property Council Awards

Argosy's redevelopment at 15–21 Stout Street in Wellington recently won a number of awards at the Property Council New Zealand Property Industry Awards in Auckland.

The property won "Best in Category" in the Green Building classification and achieved excellence awards in the Heritage and Adaptive Reuses and Commercial Office Property categories.

These awards now sit alongside the Green Building Merit award that Argosy's neighbouring property, 143 Lambton Quay, received at the 2014 ceremony.

Saatyesh Bhana, Argosy Asset Manager in charge of the redevelopment says "Argosy is very proud of this landmark building and these awards highlight the commitment that the Company has to providing high quality, environmentally friendly and efficient spaces for our tenants."

The property is the former Defence House which accommodated the Ministry of Defence for a number of years from the building's construction in the 1930's through until 2007. The building is classified as a Category 2 historic building by Heritage New Zealand.

Argosy purchased the property in 2013. It was fully redeveloped with the existing vacant structure transformed into a versatile, modern, environmentally sensitive office building. It is now home to the Ministry of Business, Innovation and Employment who are occupying on a 12-year lease.

Manawatu Business Park

One of Argosy's key strategies is to dispose of the remaining 42 hectares of vacant land at the Manawatu Business Park in Palmerston North and has increased marketing activities to achieve this. The land was purchased as part of a joint venture in 2006 and has subsequently been fully subdivided and is surrounded by modern warehousing and distribution operations. Palmerston North is increasingly being seen as a recognised distribution and logistics hub servicing the central and lower North Island, with land prices a fraction of those in Auckland and Wellington.

2016 Investor Roadshow

Each year Argosy holds its investor roadshow where senior management tour the length of the country to present the Company's recent financial results and provide an update on recent activity within the portfolio. In 2016, the investor roadshow is expected to take place towards the middle of the year so the full 2016 financial results can be presented. Look out for an invitation to this event next year.

Website

Have you taken a look at Argosy's website recently? At www.argosy.co.nz you can find more information about the business, including recent stock exchange announcements, key operational measures and information about each property within the portfolio.

A recent addition to the website is the inclusion of audio and visual presentations. Here you can listen to Peter Mence, CEO and Dave Fraser, CFO present the most recent financial results of the Company as well as view Peter being interviewed by the NZX about Argosy's investment strategy. Simply go to **http://www.argosy.co.nz/investors#presentations** to view.

PORTFOLIO UPDATE AS AT 31 JULY 2015

PROPERTIES

69

TENANTS

192

NOTE:

NOTE: THESE STATISTICS EXCLUDE THE ACQUISITION OF 8 NUGENT STREET IN GRAFTON IN AUGUST.

WALT

5.22yrs

Weighted average lease term of 5.22 years

PORTFOLIO

$1.32b

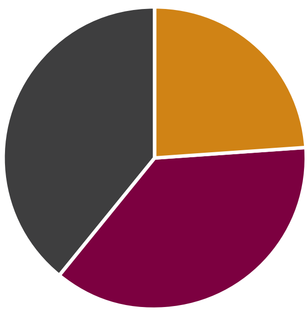
Total portfolio value of $1.32 billion

OCCUPANCY

98.8%

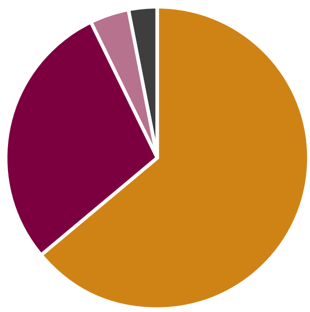
Occupancy (by rent) of 98.8%

TOTAL PORTFOLIO VALUE BY SECTOR



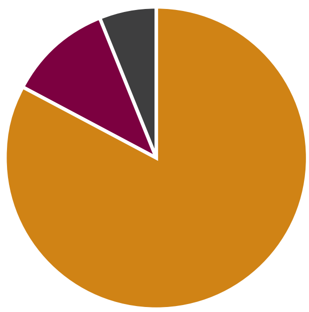
15–25%	Retail
35–45%	Office
35–45%	Industrial

TOTAL PORTFOLIO VALUE BY REGION



65–75%	Auckland
20–30%	Wellington
<5%	Palmerston North
<5%	Other regional

PORTFOLIO MIX



- 83% Core
- 11% Value Add properties
- 6% Properties and land to divest

Dividend

The **FIRST QUARTER DIVIDEND** for the 2016 financial year of 1.50 cents per share, with imputation credits of 0.4360 cents per share attached, will be paid on 23 September 2015, with the record date being 9 September 2015.

As indicated by the Board last year, a dividend of 6 cents per share is expected to continue for the year to 31 March 2016.

IMPORTANT DATES

QUARTER 1 (FY16) DIVIDEND PAYMENT
September 2015

INTERIM RESULTS ANNOUNCEMENT
November 2015

QUARTER 2 DIVIDEND PAYMENT
December 2015

QUARTER 3 DIVIDEND PAYMENT
March 2016

CONTACT

t/ 0800 653 653 t/ +64 9 304 3400
f/ +64 9 302 0996
39 Market Place, Auckland 1010,
PO Box 90214, Victoria Street West,
Auckland 1142, New Zealand
www.argosy.co.nz

REGISTRAR

To find out about more about your investment, please contact Computershare:
t/ +64 9 488 8777 f/ +64 9 488 8787
enquiry@computershare.co.nz
www.computershare.com/InvestorCentre