IN THIS ISSUE

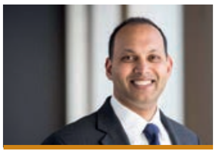


Argosy

# Investor Update

SEPTEMBER 2016

## ARGOSY WINS SUSTAINABILITY AWARD



SAATYESH BHANA
ASSET MANAGER

143 Lambton Quay

★★★★★

5 Green Star
Office Built Rating

★★★★½

4.5 Star
NABERSNZ Rating

Argosy and Te Puni Kōkiri have recently scooped a top environmental award following the latest refurbishment at 143 Lambton Quay in Wellington which transformed the 1940s building into one of New Zealand's highest performing green office buildings. The project picked up a 2016 EECA (Energy Efficiency and Conservation Authority) Award in the Public Sector Category.

Argosy and Te Puni Kōkiri worked together to achieve a 5 Green Star Office Built Rating on the property as well as a 4 ½ star NABERSNZ rating, which measures energy use on an on-going basis.

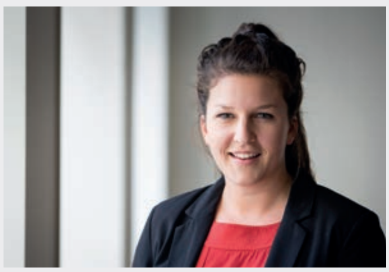
The judges said, "This is a great example of how an existing, historic building can be retrofitted to reduce energy demand, with tenant-driven improvements and big energy savings also being achieved. It's a showcase project creating traction in a space where it has been needed for the last 20 years."

Saatyesh Bhana, Argosy Asset Manager in charge of the refurbishment, said, "At Argosy we are very mindful of the impact that business activities can have on the natural environment and we are committed to managing and reducing these consequences where we can. We are very proud to be acknowledged by EECA through an award that recognises our commitment to sustainable building and the benefits that it can bring to the wider community."

The property also won a Merit Award at the 2014 Property Council of New Zealand Awards and a Silver Award at the New Zealand Commercial Project Awards in 2015. ●

## Property Graduate Employer Of The Year

Argosy was recently the proud recipient of the Property Graduate Employer of the Year Award at the Auckland University Property Awards dinner. This award goes to the employer who has made the biggest contribution to the employment, career growth and development of students graduating from the Department of Property at the University of Auckland Business School. Anne Staub, Argosy Property Manager and recent graduate, nominated Argosy for the award as she felt that Argosy has developed a workplace culture and environment where staff feel they belong, are encouraged to contribute ideas and are supported in their endeavours. Anne believes that the culture of team cohesiveness makes Argosy feel like a family. ●



ANNE STAUB
PROPERTY MANAGER

## People

**JENISE MUNRO** ADMINISTRATION MANAGER

Many of our valued tenants, contractors, suppliers and investors will have spoken with Jenise when calling into Argosy. Jenise can be found at Argosy's Reception desk where she answers the main phone line and welcomes all visitors into the Argosy head office. Jenise has several 'hats' in her role as Administration Manager – Reception, HR, administration duties, organising functions including Argosy's annual Roadshow, Annual Meeting, and liaising with investors. Prior to working at Argosy, Jenise was Executive Assistant to the CEO at ING NZ Ltd for ten years, which was the former owner of Argosy Property Management Limited, and is very familiar with the property sector and Argosy's property portfolio. Jenise keeps a cool head when dealing with all issues and is only too happy to assist with all enquiries. A keen sports follower, Jenise enjoys a game of golf in the weekends to relax.

## Shareholder Survey

Thank you to all those people who took part in the recent shareholder survey. We are always looking at ways in which we can improve our communication to you and your feedback is extremely valuable in enabling us to achieve this. This is the first time that we have undertaken this type of survey and we are attempting to address any areas of concern that have been identified. Remember, if you have any issues with your shareholding, you should contact Computershare using the contact details on the back page of this newsletter. Alternatively, get in touch with us and we will also be able to assist.

## Breast Cancer Breakfast

The Argosy team recently supported NZ Breast Cancer Research by hosting Argosy staff and tenants of 39 Market Place, Auckland at a Pink Ribbon Breakfast in Auckland. The breakfast was a great success and. as a result, we raised an impressive $1,426 towards breast cancer research.

To find out more information about this great cause, visit www.pinkribbonbreakfast.co.nz.



# Putting the 'Sin' in Syndications

**PETER MENCE**
CHIEF EXECUTIVE OFFICER

With the official cash rate lowered again, there is likely to be continued growth in the property syndication markets, growth that we find surprising, especially when compared to the returns and lower risk available from the listed property market.

When looking at the investments available in property syndication, I am very concerned that those making these decisions aren't aware of the risks associated with this type of property investment and that some of the projected returns are likely to be through capital erosion in real terms.

The significant issues with any property investment are:

- Capital preservation
- Income security – and growth
- Tax effectiveness
- Governance
- Exit strategy

None of these make a syndicated property investment a standout option.

While in the long term property should increase in value, in the medium term, property values are likely to follow economic cycles and at times values will decline.

When considering a single property, as lease terms diminish, value will decline relative to the rest of the market. For this reason alone, the majority of syndications will be challenged to preserve their capital. The fee-take in establishing a syndicate is an inescapable indication that the investment is over-priced to some degree at the time the investor buys in.

Some recent syndications have been of property that is fully (or over) rented in off prime locations where values will decline more markedly as the lease terms erode, and the prospect of difficulties retaining or attracting tenants gets closer. Too often we see property that has been unsuccessfully on the market for some time appear as a syndication offering.

It is the income levels that are attractive to syndication investors, and this allows many syndications to carry a generous helping of debt. Net after tax returns are generally comparable with those from a listed property investment, but the risks from the lack of diversity of these income streams, often with a small number of tenants and from a similar sector of the economy, are often only focused on when they are realised – too late. Again the fee-take serves to erode unnecessarily the returns to the investor.

Most listed property entities are Portfolio Investment Entities or PIE's. Investors receives tax paid returns taxed at 28%. Investors with a lower personal tax rate are able to claim excess imputation credits to reduce taxation liability from any other taxable income. Therefore, PIEs are likely to be more tax effective for most investors.

The governance required for today's listed companies and the scrutiny of the sector analysts and institutional investors are extensive, independent and open to scrutiny. This same level of governance is not present in the syndication market.

With any investment, an exit strategy is fundamentally important. An interest in a listed property entity has a level of liquidity that is simply not present in a property syndication. The diversity present with different properties and tenancies means that a listed property investment ought not to suffer the income risk and expenditure requirement malady that a syndicated investment may face as lease terms diminish. While both of course should be expected to vary in value with changes in the market, the listed investment at least can be reasonably assured of a market, where an interest in a syndicate may at the wrong time simply have no buyer – and while that does not mean that value has been retained, the debt will be.

It is therefore concerning that a large number of investors find syndicated property investment attractive. Argosy, as an example, stands as an alternative to a syndication investment that is not simply credible but relatively desirable, delivering a comparable return at a lower risk profile and with solid governance.


RUNNING
**250km**

OVER
**7days**

RAISING OVER
**$10K**

## Argosy Director Finishes 3rd Place in Gobi Desert Run

Mark Cross, director of Argosy since March 2012, recently finished third in The Gobi March 2016, a 7 day, 250 km footrace across the Gobi Desert in north-western China. Mark competed in the event to raise money for the NZ Cancer Society and Dove House, an Auckland based hospice, raising over $10,000. The race featured 95 starters from 36 countries and covered a variety of running terrain, including boulders, huge sand dunes, alpine meadows, pine forests, mountain climbs (the highest altitude was nearly 9,000 feet) and hard packed desert as far as the eye could see.

Mark's initial aim was to get to the finish line of this extremely tough event, so to surprise the field as well as himself and finish in third place was an amazing achievement.

One of the main highlights for Mark was to win the 80 km fifth and longest stage of the event in temperatures of more than 50 degrees Celsius. Mark did so well in this stage that the second place competitor was more than 50 minutes behind.

Other highlights included the beauty and brutality of the landscape, the generosity of fellow competitors, the multi-dimensional nature of the race as well as living in one set of clothes for the whole week. "It wasn't just about the running side, but also about managing yourself, your recovery after each stage, your mental state, your equipment and your nutrition" Mark says.

## Leasing Update

A buoyant commercial property market, driven in part by a scarcity of investment stock continues to push property pricing higher. Commercial offices in both Auckland and Wellington are expected to see an oversupply of space as new developments and reduced work space allowance have an impact. Retail is continuing to be impacted by growing internet sales and a significant new supply to the Auckland market. The industrial sector remains on balance with new supply matching demand. The increase in values, driven by firming capitalisation rates has allowed land price growth and has constrained rental growth over the last five years.

We observe a firm market with solid growth fundamentals and do not see any catalyst for significant change in the short term.

Argosy ended the 2016 financial year with an occupancy rate of 99.4%. This has since reduced to 97.8% as 1 Pandora Road, Napier and a floor at the Citibank Centre in Auckland have fallen vacant in the current year, as well as the restructured lease at NZ Post House in Wellington where NZ Post no longer inhabit the top three floors in exchange for a new 10-year lease on the rest of the building. Current vacancies continue to attract leasing interest.

# NEGATIVE BOND YIELDS

## – WHAT DOES THAT MEAN?

There has been a lot of talk lately about negative bond yields, but what does that actually mean? Across the world, interest rates are at historical lows, driven by protracted economic weakness and long periods of deflation. Here in New Zealand, the Official Cash Rate was recently lowered to 2% and, according to some economists and market commentators, could drop further still before the year is out. However, in Japan and parts of Europe, central banks have cut key interest rates below zero and into negative territory.

But why would a central bank do this? Almost as a last resort, the aim is to stimulate the economy by encouraging borrowing and spurring inflation and avoid a potential slide into deflation. Banks are therefore encouraged to lend money rather than sit on piles of cash. This also reduces borrowing costs for companies and households.

Would anyone invest in a bond with a negative yield? Interestingly yes, as in times of deflation, even if you earn 0% or less, you can still come out ahead. However, a rapid reversal of yields could have a devastating effect on these investors.

All of this has caused investors to search further afield for higher yields, spilling over into the world's stock markets. This has been particularly evident in the New Zealand Stock Exchange in recent years and has been one of the drivers of continued firming of yields in the listed property sector.

## Annual Meeting

Argosy's Annual Meeting was held on 9 August 2016 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 2016 financial year. At the meeting, Mike Smith and Peter Brook were both re-elected as independent directors onto the Argosy board.

The Annual Meeting presentation can be accessed on Argosy's website at www.argosy.co.nz.

**PORTFOLIO UPDATE** AS AT 31 JULY 2016

## PROPERTIES

# 66

## TENANTS

# 193

## WALT

# 5.20yrs

**Weighted average lease term of 5.20 years**

## PORTFOLIO

# $1.37b

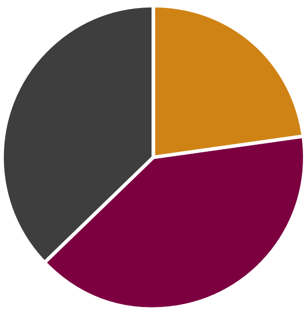
**Total portfolio value of $1.37 billion**

## OCCUPANCY

# 97.8%

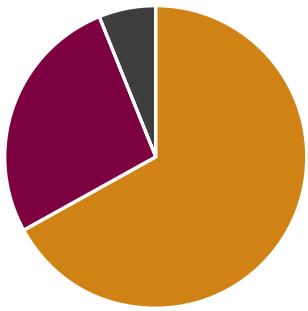
**Occupancy (by rent) of 97.8%**

## TOTAL PORTFOLIO VALUE
BY SECTOR



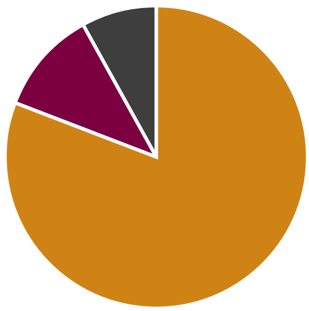
| | |
|---|---|
| 23% | Retail |
| 40% | Office |
| 37% | Industrial |

## TOTAL PORTFOLIO VALUE
BY REGION



| | |
|---|---|
| 67% | Auckland |
| 27% | Wellington |
| 6% | North Island regional and South Island |

## PORTFOLIO MIX



| | |
|---|---|
| 81% | Core |
| 11% | Value Add properties |
| 8% | Properties and land to divest |

# Dividend

The **FIRST QUARTER DIVIDEND** for the 2017 financial year of 1.525 cents per share, with imputation credits of 0.4836 cents per share attached, will be paid on 28 September 2016, with the record date being 14 September 2016.

## IMPORTANT DATES

**QUARTER 1 (FY17) DIVIDEND PAYMENT**
28 September 2016

**INTERIM RESULTS ANNOUNCEMENT**
23 November 2016

**QUARTER 2 DIVIDEND PAYMENT**
December 2016

**QUARTER 3 DIVIDEND PAYMENT**
March 2017

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## REGISTRAR

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