Argosy

23 November 2016

MARKET RELEASE

ARGOSY INTERIM RESULT – INCREASE IN PROFIT AND NTA

FOR THE PERIOD ENDING 30 SEPTEMBER 2016

Argosy Property Limited ("Argosy" or the "Company') today posted a strong interim result, with a further increase in distributable income and another uplift in the valuation of the portfolio.

In the first six months of the financial year, Argosy has continued to improve the quality of the portfolio through a number of tenant-led developments and the divestment of non Core assets.

Peter Mence, Argosy Chief Executive Officer said "It is very pleasing to be able to produce a strong operating result for the first half of the 2017 financial year. We are making the most of a very buoyant economy and property market and are very pleased to report that the metrics of the portfolio remain strong, with occupancy at 97.9% and a weighted average lease term (WALT) that continues to remain above five years.

We have continued to work closely with our tenants to follow our strategy of executing developments that are tenant driven."

HIGHLIGHTS

- **Gross distributable income increased to 4.44 cents per share (increase of 18.7%[1])**
- **Net distributable income increased to 3.82 cents per share (increase of 23.2%[1])**
- **Net property income increased to $53.7 million (increase of 10.5%[1])**
- **Net Tangible Assets (NTA) per share of $1.04, an increase of 3.9% from 31 March 2016**
- **Valuation gain of $35.8 million, up 2.6% on book values**
- **Gearing of 35.5%**
- **Further disposal of non Core Assets above book value**
- **Tenant-led developments on track**

[1] Compared with the previous corresponding period which is the 6 months to 30 September 2015.

Financial Results

Profit before tax

Argosy delivered a 20.2% increase to gross distributable income[2] to $36.1 million, or 4.44 cents per share.

As announced in April, gross distributable income has been positively affected by a surrender payment received in respect of the surrender of the lease by NZ Post for the top three floors of the building at 7 Waterloo Quay.

Net distributable income has increased to 3.82 cents per share from 3.10 cents per share as at 30 September 2015, a 23.2% increase.

Net property income for the six months to 30 September 2016 has increased to $53.7 million (2015: $48.6 million), a 10.5% increase on the previous corresponding period, due to increases in income from acquisitions and the one-off surrender payment from NZ Post at 7 Waterloo Quay, offset in part by the loss of income from disposals of non Core assets. It is expected that net property income from the property at 7 Waterloo Quay for the first half of this financial year will be $5.4 million higher than the second half.

Profit before finance costs, property revaluations and tax increased to $49.1 million (30 September 2015: $44.2 million), an 11.1% increase.

Interest expense for the period was $13.0 million, a reduction of $1.2 million compared to the previous period due to lower interest rates.

Profit before tax, after allowing for the non-cash impact of interest rate swaps and property revaluations, increased to $62.2 million, compared to $50.3 million for the previous period.

Capital Management

Current leverage

Argosy's debt, excluding capitalised borrowing costs, was 35.5% of total assets (31 March 2016: 36.7%). Argosy's capital management policy is to maintain a debt-to-total-assets ratio between 35% to 40% in the medium term.

Bank facility

The weighted average expiry of Argosy's $550 million syndicated bank facility is 3.0 years at 30 September 2016, with 91.6% of the facility having been drawn down.
Argosy continues to maintain strong relationships with its banking partners and remains well within all bank covenants.

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[2] 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 14 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Dividends

A cash dividend of 1.525 cents per share, consistent with the first quarter, has been declared for the September quarter. Imputation credits of 0.4291 cents per share are attached to the dividend and the dividend reinvestment plan ("DRP") will continue with a discount of 1% applied to the price at which the shares will be issued under the DRP. The record date is 7 December 2016 and the payment date will be 21 December 2016.

The Board is pleased to confirm that a dividend of 6.10 cents per share, with all the advantages of the PIE Regime, is expected for the year to 31 March 2017. While projections beyond that date are heavily dependent on market conditions and the economic environment, based on current conditions, it is expected that the dividend will again modestly increase in the 2018 financial year.

Portfolio activity

Leasing

Argosy has continued to address lease expiries and has achieved a number of successful outcomes in the six months since year end. Key successes include the new ten year lease to The Warehouse Limited at 17 Mayo Road in Wiri, Auckland and the lease to Fronde Limited across level 8 at the Citibank Centre.

The occupancy rate (by rental income) has reduced since year end to 97.9% at 30 September 2016 (31 March 2016 99.4%), mainly due to the expiry of the lease to Fonterra at 1 Pandora Road in Napier. Outstanding lease expiries for the period ending 31 March 2017 have reduced and enquiry levels from potential tenants are encouraging.
The weighted average lease term at 30 September 2016 remains stable at 5.26 years. This compares to 5.24 years at 31 March 2016.

Disposals

During the first half of the financial year Argosy continued to divest non Core Assets, in line with strategy. Upcoming disposals include 28-30 Catherine Street in Auckland for $6.0 million which is due to settle in June 2017, 44 Neil Lane in Palmerston North for $3.3 million which is due to settle in December 2016 and 19 Richard Pearse Drive in Auckland for $7.6 million which is due to settle in March 2017.

Approximately $55.0 million of property has been designated as neither Core nor Value Add and will be divested as market conditions allow.

Update of Tenant-Led Developments

A key strategy is to work with the tenants in the portfolio to identify and realise development projects that enhance the value and quality of the portfolio while also allowing tenants to meet their changing space requirements. A number of these initiatives are currently in progress, including:

- New Zealand Post House, Wellington – prior to resolving any issues with building services and tenant fit out as a result of the recent earthquakes, the project remained on time and on budget;

- Foundry Drive – the $7.5 million redevelopment of this earthquake damaged property in Christchurch remains on budget and is expected to be complete by the end of 2016;
- Snickel Lane, Citibank Centre, Auckland – leasing progress remains strong on this $7.5 million laneway development, with completion expected to be in April 2017;
- Placemakers, Kaiwharawhara – Argosy recently announced a $9.4 million redevelopment of the property at 180 Hutt Road and a new nine year lease with Fletcher Distribution Limited;
- Mighty Ape, Silverdale – Argosy has acquired 22,575 square metres of land at Highgate Business Park and will develop a 10,500 square metre office and warehouse for our existing tenant, Mighty Ape.

There are also a number of other exciting opportunities currently which we continue to progress.

Valuations

An independent interim revaluation of the portfolio was undertaken as at 30 September 2016 due to continued evidence of improved market conditions in the property market since 31 March 2016. The revaluation resulted in an uplift of $35.8 million, a 2.6% increase on book values immediately prior to the interim revaluation. As a result of the revaluation, Argosy's NTA has lifted to $1.04.

The Company's portfolio following the revaluation shows a passing yield on values of 7.25% and a yield on fully let market rentals of 7.30%.

Governance

At the Annual Meeting in August 2016, both Mike Smith and Peter Brook were re-elected as independent Directors.

Outlook

We continue to operate in a low interest rate and low inflation environment, although the possibility of rising interest rates has caused nervousness around the world's stock markets. The economy, and thus the property market, in New Zealand however remains solid with good economic growth expected to continue.

The first half of the financial year has seen Argosy take further steps towards advancing the quality of the portfolio. We remain as focused as ever on addressing near term lease expiries within the portfolio, ensuring that the tenant retention rate remains high and safeguarding the strong fundamentals of the portfolio.

-ENDS-

Enquiries

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Summary Financial Information

	1H17	1H16	% change
Net property income	$53.7m	$48.6m	10.5%
Earnings before interest and tax	$49.1m	$44.2m	11.1%
Profit before tax	$62.2m	$50.3m	23.5%
Gross distributable income (cents per Share)	4.44	3.74	18.7%
Net distributable income (cents per Share)	3.82	3.10	23.2%
Adjusted Funds from Operations (AFFO) (cents per Share)[3]	3.37	2.90	16.2%

[3] AFFO is an alternative performance measure used to assist investors in assessing the Company's underlying performance and to determine income available for distribution. A full reconciliation between profit before tax and AFFO is available in the investor presentation released today.