



Argosy

2021

Annual Meeting


Building a better
future

29.06.2021


Argosy Property Limited

HYBRID AGM

Q&A

- ▶ Any shareholder or appointed proxy / representative attending is eligible to ask questions.
- ▶ If you wish to ask a question, select the question icon button on your computer, tablet or mobile phone, and then type and submit your question. 
- ▶ The question will then be sent to the Board to answer.
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VOTING

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THE BOARD



Jeff Morrison *Chairman*



Stuart McLauchlan *Director*



Chris Gudgeon *Director*



Mike Pohio *Director*



Rachel Winder *Director*



Martin Stearne *Director*

THE EXECUTIVE TEAM



Peter Mence *Chief Executive Officer*



Dave Fraser *Chief Financial Officer*

AGENDA

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CHAIRMAN'S REVIEW



FY21 ACHIEVEMENTS

- ▶ Carefully managed our way through Covid-19, minimising the financial impact on Argosy ✓
- ▶ Resilient operating results reflecting a high quality portfolio of diversified real estate ✓
- ▶ Continued to progress green developments despite the Covid-19 impact on construction ✓
- ▶ Strong leasing progress at 7WQ, now 89% leased ✓
- ▶ Capital management initiatives delivered, with divestment capital recycled into green developments ✓
- ▶ Executed on strategic industrial Auckland opportunities in line with strategy ✓

VISION - BUILDING A BETTER FUTURE

Owning the right assets with the right attributes in the right New Zealand locations.

A diversified asset allocation across sectors to reduce volatility and widen growth opportunities

Targeting strategic growth opportunities with green potential and a focus on the Auckland Industrial and Wellington Government Office markets

Maintaining a portfolio of high quality, well located core assets with growth potential



Proactive delivery of sustainable growth.

A business culture that is **environmentally focused**

Executing green Value Add portfolio opportunities to drive earnings and capital growth

A commitment to **green funding**

A business that is adaptable and responsive to change.

Maintaining strong and valued relationships across all stakeholders

A commitment to management excellence delivering earnings and dividend growth

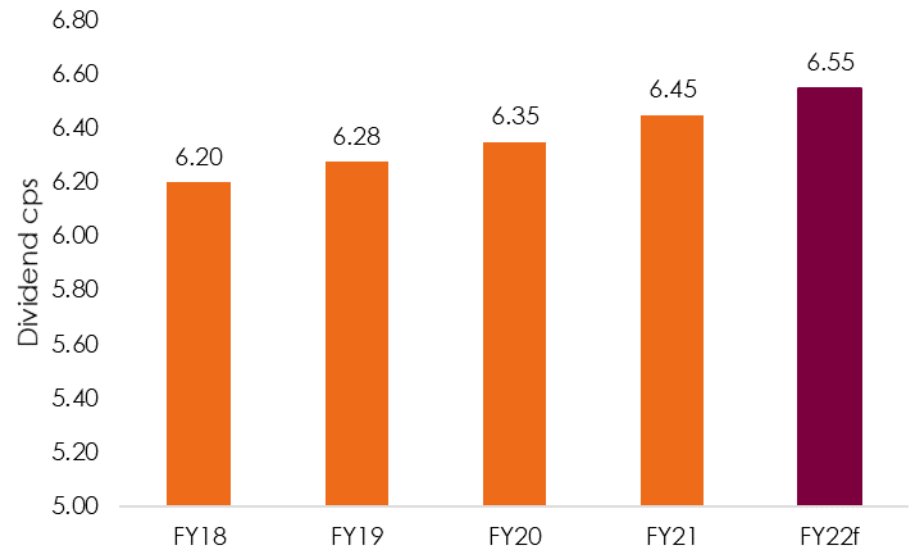
Ensuring safe working environments for Argosy and its partners



DIVIDENDS

RESILIENT AND SUSTAINABLE DIVIDENDS

- ▶ A 4th quarter cash dividend of 1.6125 cents per share has been declared (nil imputation credits) and paid on 23 June 2021.
- ▶ The Dividend Reinvestment Plan will be available for participation in the 4th quarter dividend with a 2% discount.
- ▶ FY22 dividend guidance is 6.55 cents, an increase of 1.6% on FY21.



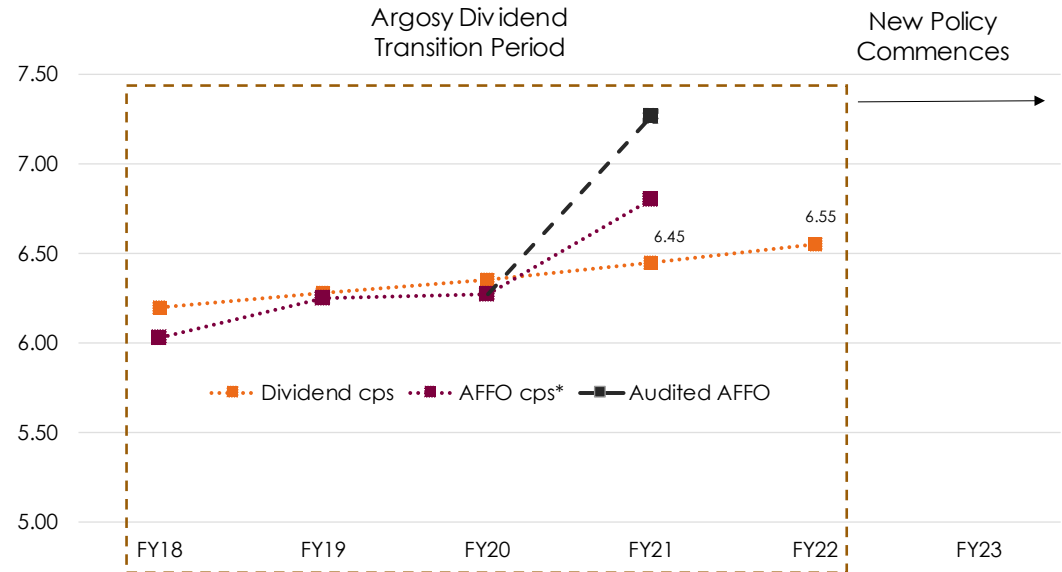
6.55cps

FY22 full year dividend guidance is based on current projections for the business

NEW DIVIDEND POLICY

TRANSITIONING INTO AFFO DIVIDEND POLICY FRAMEWORK FROM FY23

- ▶ In 2017, Argosy's Board advised of its intention to move (in the medium term) to an amended dividend policy, based on AFFO earnings.
- ▶ Commensurate with this commitment, commencing **1 April 2022, Argosy's policy will be to pay dividends between 85-100% of AFFO.**
- ▶ In formulating the dividend policy, the Board was focused on Argosy's ability to grow sustainable dividends to shareholders.



* Adjusted for forfeited deposit at Albany Lifestyle Centre and 7WQ façade works (net of tax)

85-100%

AFFO dividend payout ratio from 1 April 2022

CHIEF EXECUTIVE OFFICERS REVIEW



KEY FY21 RESULT HIGHLIGHTS

13.7%

Net distributable income increase

3.3%

Annualised rent increase on rents reviewed

\$1.53

NTA up 17.7% from \$1.30 driven by a \$157.7m revaluation gain

\$125m

A 3rd successful 7 year green bond issue

6.45ps

Full year FY21 dividend increased by 1.6%

BIG CORPORATE GOALS - 2031

>50%

Of the portfolio to be green assets

CO₂

Target carbon neutral

>50%

Of total debt finance being green non-bank funding

>\$3bn

Portfolio activity will result in increased scale through acquisitions and green developments

-30%

Reduction in carbon emissions by 2031



Greater engagement and bigger contribution to social initiatives. "Changing lives, saving lives."

PORTFOLIO HIGHLIGHTS

99.0%

Occupancy

5.5yrs

Weighted average lease term
(WALT)

6.3%

Like for like rental growth

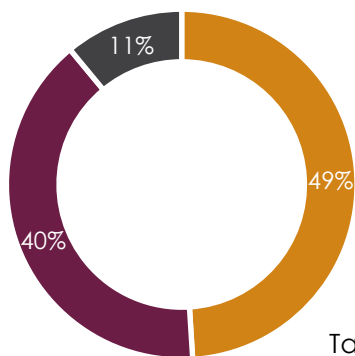
\$157.7m

Annual revaluation gain 8.5% above
31 March book values

PORTFOLIO AT A GLANCE

\$2.01 BILLION¹ @ 31 MARCH 2021

**TOTAL PORTFOLIO VALUE
BY SECTOR**



■ Industrial

■ Office

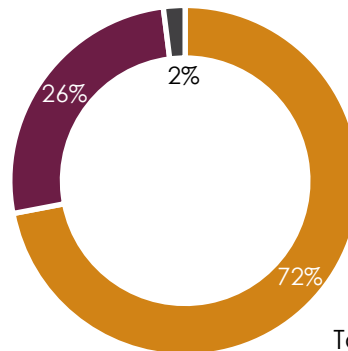
■ Large Format Retail

Target Bands
45-55%

30-40%

10-20%

**TOTAL PORTFOLIO VALUE
BY REGION**



■ Auckland

■ Wellington

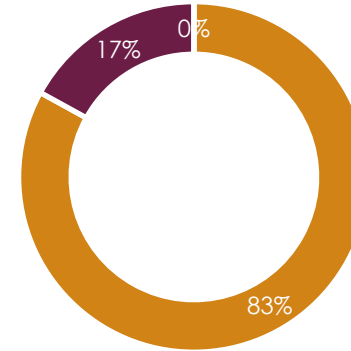
■ Regional North Island & South Island²

Target Bands
65-75%

20-30%

<10%

**TOTAL PORTFOLIO VALUE
BY ASSET MIX**



■ Core

■ Value Add

■ Non Core

Target Band
75-90%

-

-

1. Metrics exclude Held for Sale assets.

2. Includes up to 5% allocation to the Golden Triangle area between Auckland, Tauranga and Hamilton.

VALUE ADD PROPERTIES

GREEN OPPORTUNITIES WILL DRIVE EARNINGS AND CAPITAL GROWTH

- ▶ Value Add properties total ~17% of the portfolio.
- ▶ Some Covid-19 deferred projects are likely to be re-initiated in the next 6-9 months.
- ▶ Transforming Value Add assets into green developments remains a key focus and aligns with our vision and strategy.
- ▶ Value Add Auckland industrial estates will drive earnings and capital growth over the medium to longer term.

Property - Value Add	Sector	Location	Valuation ¹ \$m
5 Allens Road, East Tamaki	Industrial	Auckland	5.6
1-3 Unity Drive, Albany	Industrial	Auckland	14.9
5 Unity Drive, Albany	Industrial	Auckland	7.8
15 Unity Drive, Albany	Industrial	Auckland	5.8
133 Roscommon Road, Wiri	Industrial	Auckland	11.5
25 Nugent Street, Grafton (office portion)	Office	Auckland	15.8
224 Neilson Street, Onehunga (planned)	Industrial	Auckland	32.8
8-14 Mt Richmond Drive, Mt Wellington (planned)	Industrial	Auckland	78.0
101 Carlton Gore Road, Newmarket (deferred)	Office	Auckland	29.5
105 Carlton Gore Road, Newmarket (deferred)	Office	Auckland	29.0
8-14 Willis Street/ 360 Lambton Quay (underway)	Office	Wellington	106.6
TOTAL \$m			337.3


+\$337m

In Value Add properties with potential to deliver earnings and capital growth

1. Valuations as at 31 March 2021.

CURRENT DEVELOPMENT PROJECT

FOCUS ON COMPLETING 6 STAR GREEN DEVELOPMENT

Development	Major Tenant	Type	Location	Cost to complete	Forecast completion	FY 2021		FY 2022	
						Sep-20	Mar-21	Sep-21	Mar-22
Underway									
8-14 Willis Street	Statistics New Zealand	OFF/RET	WTN	37.9	Feb-22				
TOTAL				37.9					

- ▶ **8-14 Willis Street/360 Lambton Quay:** Argosy continues to progress with an expected completion date in February 2022. As noted at the interim result, the addition of an 11th floor to the initial plans will cost \$6.8 million and deliver incremental income of \$0.7 million. 360 Lambton Quay is in the process of being repurposed into a combination of retail and office space. This, along with increased costs caused by delays to the project have increased the expected total spend (including land) to \$140.1 million. The net rental for the combined building is now expected to be \$7.4 million. The IRR on the combined development is expected to be 7.2%, with an initial yield on cost of 5.3%. The development margin is 7.6%.
- ▶ **Other green developments:** The 101 Carlton Gore Road and 105 Carlton Gore Road green projects have been deferred.

7.2%

Expected IRR on 8-14 Willis Street/360 Lambton Quay development

ANNUAL REVALUATIONS

CAP RATE FIRING AND RENTAL GROWTH KEY DRIVERS OF INCREASE

- ▶ For the year to 31 March, the portfolio recorded a revaluation gain of \$157.7m or 8.5%. The portfolio market yield firmed 63bps.
- ▶ By location, Auckland was the largest contributor to the revaluation gain with \$150.2m of the total portfolio gain.
- ▶ By sector, Industrial experienced solid cap rate firming and market rental growth in the period, and provided the greatest contribution at \$129.9 million, up 15.2%.
- ▶ The Office portfolio revaluation was weighed down by additional capital required for the façade repairs at 7 Waterloo Quay and increased development costs at 8-14 Willis Street/360 Lambton Quay.

	31 Mar 21 Book Value (\$m)	31 Mar 21 Valuation (\$m)	Δ \$m	Δ %	Market Yield ¹	
					31 Mar 21	31 Mar 20
Auckland	1,296.3	1,446.5	150.2	11.6%	5.59%	6.22%
Wellington	519.8	523.4	3.5	0.7%	6.62%	7.19%
North Island Regional & South Island	37.0	41.0	3.9	10.7%	6.41%	6.98%
Total	1,853.1	2,010.8	157.7	8.5%	5.78%	6.41%

	31 Mar 21 Book Value (\$m) ¹	31 Mar 21 Valuation (\$m)	Δ \$m	Δ %	Market Yield ¹	
					31 Mar 21	31 Mar 20
Industrial	855.0	985.0	129.9	15.2%	5.42%	6.17%
Office	814.2	812.7	(1.5)	-0.2%	6.43%	6.83%
Large Format Retail	183.9	213.2	29.3	15.9%	5.65%	6.23%
Total	1,853.1	2,010.8	157.7	8.5%	5.78%	6.41%

1. Market Yield 31 March 2021 excludes 7 Waterloo Quay, 8-14 Willis Street/360 Lambton Quay. Market Yield 31 March 2020 excludes 7 Waterloo Quay and 8-14 Willis Street/360 Lambton Quay & 54-56 Jamaica Drive.

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DISTRIBUTABLE INCOME

STRONG PERFORMANCE ON PER SHARE BASIS

- ▶ After non-cash adjustments and current tax, net distributable income increased by \$8.2 million or 13.7%.
- ▶ Tax expense was lower due to increased depreciation on buildings, additional 7WQ depreciation and the non-assessable forfeited deposit for Albany Lifestyle Centre.

+13.1%

Increase in net distributable income cents per share to 8.14 vs. 7.20

	FY21 \$m	FY20 \$m
Profit before income tax	248.4	123.9
Adjusted for:		
Revaluations gains	(157.7)	(59.9)
Impairment loss on held for sale	-	3.0
Realised losses/(gains) on disposal	(2.0)	0.1
Derivative fair value (gain)/loss	4.2	(2.1)
Insurance proceeds - reinstatement	(19.9)	-
Earthquake expense net of recoveries	(1.4)	0.5
Gross distributable income	71.6	65.4
Depreciation recovered	(0.0)	0.0
Current tax expense	(3.9)	(5.9)
Net distributable income	67.7	59.6
Weighted average number of ordinary shares (m)	832.3	827.2
Gross distributable income per share (cents)	8.61	7.91
Net distributable income per share (cents)	8.14	7.20

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ADJUSTED FUNDS FROM OPERATIONS (AFFO)

A FOCUS ON SUSTAINABLE DISTRIBUTIONS

- ▶ Higher capitalised incentives reflects large leasing deals with government departments (\$3.6m at 7WQ)
- ▶ Lower maintenance capex reflects impact of Covid-19.

89%

AFFO dividend payout ratio for FY21

	FY21 \$m	FY20 \$m
Net distributable income	67.7	59.6
Amortisation of tenant incentives and leasing costs	5.1	3.5
Funds from operations (FFO)	72.9	63.0
Capitilisation of tenant incentives and leasing costs	(8.2)	(5.5)
Maintenance capital expenditure	(3.9)	(6.0)
7 Waterloo Quay façade repairs	(1.0)	(0.0)
Maintenance capital expenditure recovered through sale	0.7	0.3
Adjusted funds from operations (AFFO)¹	60.4	51.8
Weighted average number of ordinary shares (m)	832.3	827.2
FFO per share (cents)	8.75	7.62
AFFO per share (cents)	7.26	6.27
Dividends paid/payable in relation to period	6.45	6.35
Dividend payout ratio (to FFO)	74%	83%
Dividend payout ratio (to AFFO)	89%	101%
Dividend payout ratio (to AFFO) ²	95%	101%

1. Audited 2. Excluding ALC deposit and 7WQ façade works net of tax

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CAPITAL MANAGEMENT

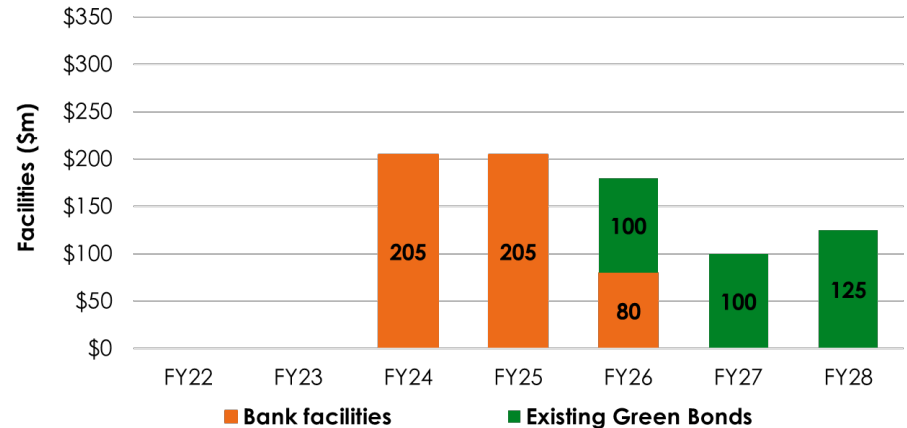
GREEN BONDS ATTRACTIVE DIVERSIFICATION TOOL

- ▶ Argosy operates within its Capital Management Framework.
- ▶ The Board's policy is for debt to total assets to be between 30% to 40%.
- ▶ As at 31 March 2021 Argosy's debt to total assets remained within the target range.
- ▶ Green bonds support Argosy's overall debt capital funding programme diversifying its bond-to-bank debt funding mix to 40:60.

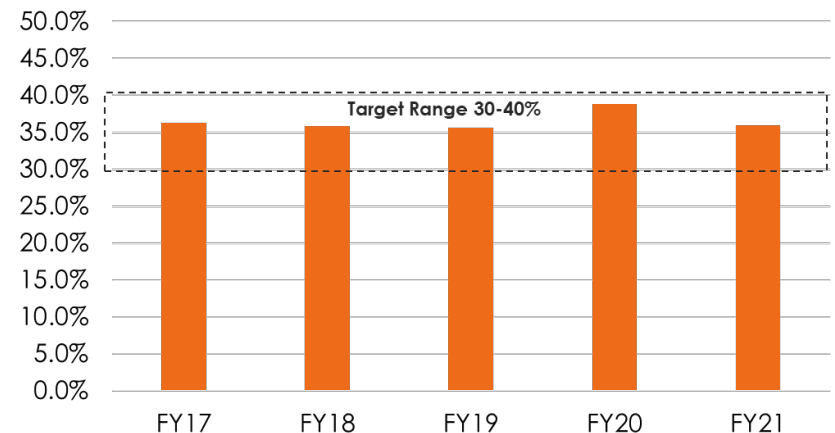
4.2yrs

Weighted average debt tenor at 31 March 2021

Argosy Debt Profile



Debt-to-total-assets



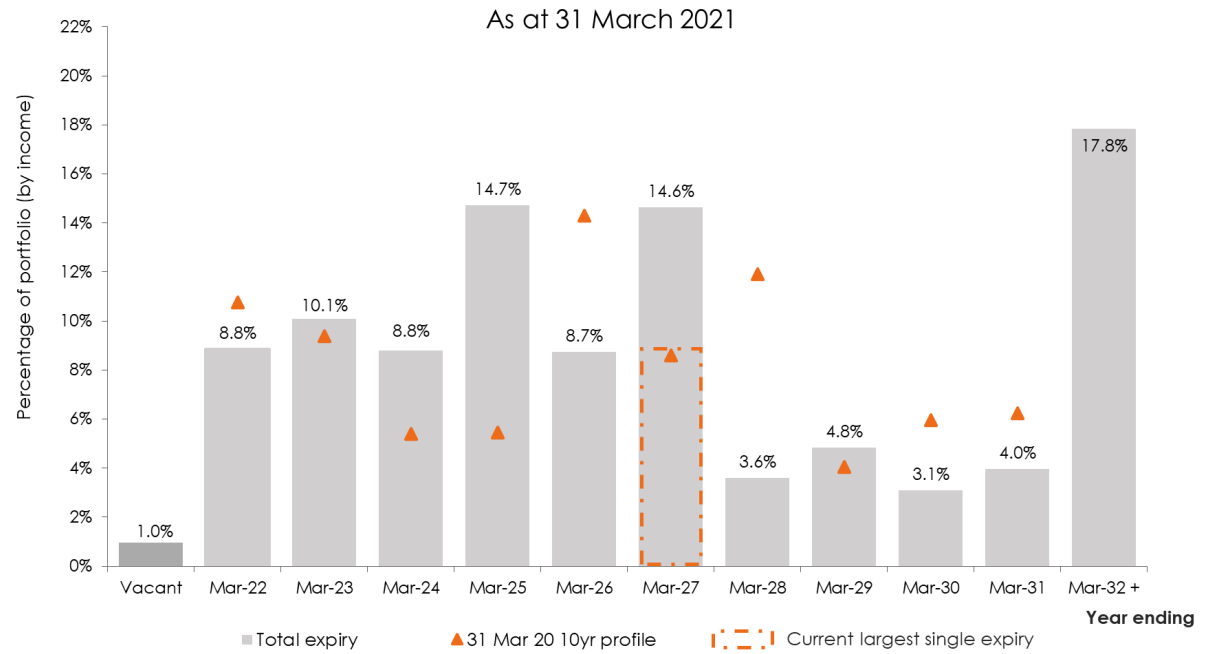
LEASE EXPIRY PROFILE

RELATIVELY STABLE PROFILE OVER THE MEDIUM TERM

- ▶ Low year end portfolio vacancy.
- ▶ 5yr average income percentage expiring in any year ~10%.
- ▶ Largest single expiry over the next 10 years is Ministry for Business, Innovation and Employment, in 15-21 Stout Street, 9.4% in Mar-27.

1.0%

Very low portfolio vacancy at 31 March



MARKET UPDATE



INDUSTRIAL

- ▶ Net absorption continues to drive additional supply.
- ▶ Limited land supply in Auckland and Wellington puts pressure on land values and encourages non-traditional locations.
- ▶ Rental growth continues.
- ▶ Vacancy remains very low, with limited speculative supply.
- ▶ Effects of Covid-19 recession have been muted.



OFFICE

- ▶ Flexible working environments continue to drive a disconnect between employment growth and net absorption.
- ▶ Net absorption effect of Covid-19 has resulted in a significant increase in space available for sub-lease in A grade and prime buildings in the Auckland market
- ▶ Rental growth impacted by new supply – softer in Auckland, and firmer in Wellington.
- ▶ The Wellington market continues to show solid demand, with low vacancy for good quality seismically sound space that is well located. There is a shortage of large floor plate/high quality stock with upward rental growth pressure as a result. Premium and Grade A vacancy is minimal.



LARGE FORMAT RETAIL

- ▶ Many retailers' systems have been shown to be inadequate to cope with higher online sales volumes.
- ▶ Structural change in retail property will show increased focus on showroom and semi-industrial facilities.
- ▶ Impact of additional development will be felt particularly in secondary locations.
- ▶ Large format, and entertainment retail expected to be most secure
- ▶ Rental growth has been negative over the last 6 months.

2022 OUTLOOK

- ▶ The current domestic and global economic outlook still remains challenging. Vaccination rollouts globally are accelerating. Countries will open up again for tourism in the near term.
- ▶ However, central banks globally are dealing with the conflicting forces of transitory inflationary pressures driven by Covid supply chain issues rather than economic growth. NZ is not immune. Our low monetary policy settings could rise in the medium term which could create an unintended headwind for business confidence and growth.
- ▶ Key focus areas for FY22 include an operational focus on addressing key expiries, leasing up remaining vacancies and continuation of the green development programme.
- ▶ New Zealand monetary policy settings should remain stimulatory for the economy over the short term but the medium term could see risk of tightening policy settings.
- ▶ Property fundamentals in key metropolitan markets are still robust and some segments (e.g. Wellington office, Auckland industrial) continue to present attractive dynamics of low supply, high demand and steady rental growth.

QUESTIONS



Argosy

RESOLUTIONS



REGULATIONS
COMPLIANCE

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RESOLUTION 1

- ▶ That Jeff Morrison be elected as a Director.

RESOLUTION 2

- ▶ That Stuart McLauchlan be elected as a Director.

RESOLUTION 3

- ▶ That, for the purposes of NZX Listing Rule 2.11.1, the maximum aggregate amount of remuneration payable by the Company to Directors (in their capacity as Directors) be increased by \$49,500 per annum, from \$778,500 per annum to \$828,000 per annum, with effect on and from 29 June 2021.

RESOLUTION 4

- ▶ That the Board be authorised to fix the Auditor's Fees and Expenses.

GENERAL BUSINESS



CLOSE OF MEETING



THANK YOU



DISCLAIMER

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All values are expressed in New Zealand currency unless otherwise stated.

29 June 2021