17.5.2023

Market Release

FY23 Annual Result – Building a better future

Argosy will present the FY23 annual result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10029421-fo91te.html or dial 0800 453 055 and quote the conference ID 10029421. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ('Argosy' or the 'Company') has reported its results for the 12 months to 31 March 2023.

Key highlights for the period include:

- Net property income for the period of $112.8 million, up 7.3%;
- Net distributable income of $64.2 million;
- High year end occupancy (99.3%) and WALT (5.4 years);
- $146.6 million annual revaluation loss, down 6.4% on book value, resulting in a net loss after tax of $80.8 million;
- NTA per share of $1.58 from $1.74 at 31 March 2022;
- Strong portfolio leasing and rent review outcomes, including 3.6% annualised rental growth on rents reviewed;
- Continued focus on sustainability with several green developments completed and 105 Carlton Gore Road nearing completion;
- A full year dividend of 6.65 cents per share, a 1.5% increase over FY22; and
- FY24 dividend guidance of 6.65 cents per share.

Chairman Jeff Morrison said, "The Argosy Board is pleased with the way management and staff have delivered another solid result and continued to execute on the Company's asset allocation strategy, increasing its Industrial weighting and reducing its weighting to Office.

Inflation and interest rates have, and continue to be, an obvious concern and this is reflected in market volatility across the sector. Management is constantly reviewing the portfolio and the resilience of tenants and underlying rental income, and is comfortable with the current position. Government tenancies comprise 34% of total rent, providing a high degree of earnings certainty. Tenant retention and occupancy ratios have been particularly pleasing in a challenging year.

CBRE research indicates the bottom-up fundamentals of the Auckland Industrial and Wellington Office sectors remain strong, and Argosy's exposure to these sectors also helps support the company's earnings and consequently the dividends it is able to pay.

Earnings are underpinned by a solid capital position. Argosy's interest rate management strategy sees it with less than 30% floating debt exposure, which is prudent in the current environment. Furthermore, the Board remains comfortable that Argosy has sufficient funding capacity to accommodate medium term development requirements and any further adverse property valuation movements.

Market data suggests that the long-standing strategy of focusing on sustainable spaces is being rewarded through increasing tenant enquiry for sustainable buildings, in both the Auckland and Wellington markets. This underscores our long-held view that the local market is now catching up with international trends and that the resilience of revenue streams is, and will continue to be, enhanced by the increased number of green buildings in the portfolio.

Our ongoing commitment to greening the portfolio, primarily through redevelopment, is also driving higher revenue streams and stronger tenant retention levels. There is a growing preference by tenants for sustainable green rated buildings. Furthermore, Management is reporting increased anecdotal evidence of growing rental premiums being achieved for green buildings and expects this to increase over time. The formal opening of our green development at 8-14 Willis Street was a highlight during the year. A 6 Star Green Built Rating is being targeted for this building.

Looking ahead, it is clear that the New Zealand economy will face challenges during the remainder of FY24. With this in mind, the Board has decided to maintain the dividend at the current level, so dividend guidance for FY24 is for a pay-out of 6.65 cents per share."

Management review

Argosy's Chief Executive Officer, Peter Mence said "We finished FY23 with some excellent operational results across the business following a summer blotted with extreme weather and inflation concerns. We are well positioned to start FY24 strongly.

Operationally, the business is in good shape with several new leases and renewals already addressed, particularly the renewal with General Distributors at Favona Road.

The Auckland Office leasing market has proven more resilient than many expected, particularly in the green building segment.

Master Planning continues at our two green Value Add industrial precincts at Mt Richmond and Neilson Street. We continue to receive strong market enquiry for these properties which will underpin our green development pipeline over the medium term.

As a management team, we are conscious of balancing near term results with delivery of our longer term strategic goals. For FY24, we will continue to focus on working with our customers, addressing expiries and leasing vacancy within the portfolio.

The growing tenant demand evident for high quality and vibrant spaces to support their business requirements validates our confidence in the long term strategy.

These green projects will provide impetus to our goal of half our portfolio being green by 2031. The combination of these short and long term focus areas will underpin the delivery of our strategy and sustainable distributions to shareholders."

Financial Results

Statement of Comprehensive Income

For the 12 months to 31 March, Argosy reported net property income of $112.8 million for the period, up $7.6 million or 7.3% compared with the prior comparable period.

Net property income was bolstered by solid like for like rental growth, the contribution from 100 Maui Street and development income.

Net interest expense of $36.3 million was up $10.7 million on the prior comparable period, primarily due to higher floating rates, higher overall debt levels and lower capitalised interest.

Annual valuations for the year to 31 March 2023 were performed by CBRE Limited, and Colliers International New Zealand Limited. The total unrealised revaluation loss for the year to 31 March was $146.6 million or 6.4% on book value. In general, portfolio capitalisation rate softening of 68 basis points to 5.84% was offset to some extent by market rental growth. Of the annual decline $23.5 million was recognised in the interim result at 30 September 2022.

By sector, Industrial decreased $49.1 million or 4.2%. The Office portfolio declined by $79.0 million or 8.9%, and Large Format Retail declined by $18.5 million or 8.2%. The portfolio was 10.8% under-rented, excluding market rent on vacant space.

As a result of the FY23 revaluations, Argosy's NTA declined to $1.58 from $1.74 at 31 March 2022. Following the revaluation, Argosy's portfolio shows a contract yield on values of 5.60% and a yield on fully let market rentals of 6.21%.

The revaluation loss contributed to a net loss after tax of $80.8 million, compared to a net profit of $236.2 million in FY22.

Distributable Income

Net distributable income for the year was $64.2 million compared to $64.7 million in the prior comparable period.

Portfolio Activity

Portfolio Metrics, Rent Reviews and Leasing

Peter Mence said "During the second half of the year the economic landscape became more challenging. However, the team delivered some excellent results around the key operating metrics of occupancy, rental growth and leasing."

As at 31 March, Argosy's WALT was a healthy 5.4 years and portfolio occupancy was 99.3% up from 98.7% as at the prior year end.

For the year to 31 March, Argosy completed 106 rent reviews, achieving annualised rental growth of 3.6%. These reviews were achieved on rents totalling $73.0 million.

On rents subject to review by sector, Argosy achieved annualised rental growth of 3.4% for Industrial rent reviews, 3.5% for Office rent reviews and 4.7% for Large Format Retail rent reviews.

For the year to 31 March, 65% of rents reviewed were subject to fixed reviews, 22% were market reviews and 13% were CPI based.

Argosy completed 36 leasing transactions across 97,500m^2 of NLA over the year to 31 March. Lease transactions were made up of new leases (16), extensions (4), renewals (16).

Key leasing highlights over the financial year include;

- General Distributors, 80-120 Favona Road, 46,828m^2
- McLarens Group (NZ) Limited, Citigroup, 988m^2
- Debonaire Furniture Limited, 39 Randwick Road, 4,142m^2
- Visypet (NZ) Limited, 211 Albany Highway, 15,191m^2
- Hospitality Services Limited, Citigroup, 656m^2
- Briscoes Group, Albany Mega Centre, 5,650m^2
- Ministry for the Environment, 8 Willis Street, 2,245m^2
- Lighting Direct, Albany Mega Centre, 571m^2

Peter Mence said "The team worked very hard over the back end of the financial year and attracted and retained some great tenants for Argosy.

Recent CBRE data indicates that, while a quieter twelve months ahead is expected, the Auckland Industrial sector remains very attractive with strong bottom-up fundamentals, including low vacancy and strong rental growth. Industrial remains very much a resilient sector and has some of the best forecast returns through to 2026.

Argosy's portfolio is 53% weighted to Industrial, and it is clear that our pipeline of green Value Add development Industrial sites will further enhance portfolio quality and resilience over the longer term."

Divestment of non Core Assets

During the year, Argosy settled the sale of 25 Nugent Street in Auckland, for $22.0 million (at a 28% premium to the then book value). At year end, there are a small number of assets which are earmarked for sale as they no longer meet Argosy's investment criteria (totalling approximately $66.0 million).

Developments

105 Carlton Gore Road, Newmarket

This $35 million redevelopment is nearing completion with a target date of 1 June 2023. The remaining focus is on interior finishes including integrated tenancy fitout on the ground floor, part Level 3 and all of Level 4. The building is currently ~50% leased and Argosy is in exclusive negotiations with potential new tenants for both Level 2 (1,055m^2) and the balance of part Level 3. This would only leave Level 1 available for lease.

Mt Richmond

Master Planning continues at this 10.6 hectare Value Add green development site in the central industrial precinct of Mt Wellington, only 15km from Auckland CBD. The industrial estate is targeting a minimum 6 Green Star rating with high stud options ranging from 4,000m^2 – 18,000m^2, ample parking, café and state of the art end-of-trip facilities. Resource consents have been lodged and are being processed by Auckland Council. Stage 1 (earthworks consents) are expected to be uplifted imminently. Stage 2 (structure) consents are expected to be uplifted in the coming weeks.

Peter Mence said "We are getting some very good interest from a range of good quality tenants across a diverse range of sectors."

Neilson Street

Neilson Street is the second of Argosy's Value Add green development sites. It is strategically located 8km from the Auckland CBD with excellent access to both motorway networks. The site will offer 5 Green Star high stud office/warehouse options from 3,500m^2 – 7,000m^2.

“The Neilson Street location is generating strong interest and we are negotiating with top quality tenants. There is a lot of market demand for modern, well located and sustainable buildings. Developments such as this, coupled with attractive market fundamentals, means we are well placed to benefit from this demand.” said Peter Mence.

Capital Management

As at 31 March, Argosy’s debt to total assets ratio, excluding capitalised borrowing costs, was 35.1% compared to 31.1% at 31 March 2022.

The ratio reflects the net impact of revaluation losses, acquisitions and development activity during the period[1]. Argosy’s year end gearing sits towards the middle of its target gearing band of 30-40%, and well below its bank covenant of 50%.

During the period Argosy increased and extended its syndicated bank facilities with ANZ Bank of New Zealand Limited, Bank of New Zealand Limited, The Hongkong and Shanghai Banking Corporation, Commonwealth Bank of Australia and Westpac New Zealand Limited. Argosy also announced that Industrial and Commercial Bank of China Limited (ICBC) joined the syndicate. The total amount of the bank facility has increased by $20 million and is now $475 million.

Argosy’s weighted average debt tenor, including bonds, was 3.2 years (3.5 years at 31 March 2022) with the nearest tranche of bank debt expiring in April 2025. Its weighted average interest rate was 5.39% (4.14% at 31 March 2022).

Strategy and Governance

“Argosy remains focused on building a better future. We will do this through our commitment to sustainability and greening our portfolio, meeting tenant demand, through redevelopment of existing buildings and development of new ones. We remain weighted to the Auckland Industrial market, where half of our portfolio is positioned to leverage from attractive long term structural trends.

As we look ahead to FY24, the economic environment is looking more challenging for business and for consumers. We remain focused on delivering on key objectives that will support earnings and dividend sustainability. This includes completing existing developments and associated leasing up, commencing our new green industrial projects, and addressing residual vacancies and near term expiries. Our big strategic goals, particularly around greening the portfolio, will support resilient and sustainable dividend growth to shareholders over the long term” said Jeff Morrison.

[1] The ratio excludes the right of use asset at 39 Market Place of $40.1 million, recorded in the period under NZ IFRS 16.

Argosy's Annual Shareholders Meeting (ASM) will be held as a hybrid meeting on 20 June at 2pm at the Royal New Zealand Yacht Squadron in Auckland. Argosy continues to utilise the hybrid functionality of the ASM. It allows shareholders to attend virtually and participate in all elements of the meeting including questions and answers and completing all voting.

Martin Stearne and Rachel Winder will retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election.

Dividends and Outlook

A fourth quarter dividend of 1.6625 cents per share has been declared for the March quarter with imputation credits of 0.01801 cents per share attached. This brings the full year dividend to 6.65 cents per share in line with previous guidance. The dividend will be paid to shareholders on 21 June 2023 and the record date will be 7 June 2023. The Dividend Reinvestment Plan remains suspended by the Board until further notice.

Jeff Morrison said "With strong foundations in place, Argosy starts the FY24 year in very good shape both from a capital and business position. Whilst the near term operating environment is going to be challenging, the company remains focused on its strategy of delivering a sustainably focused (green), resilient and diversified business that creates long term value for shareholders."

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