Argosy

26 May 2016

MARKET RELEASE

ARGOSY ANNOUNCES ANNUAL RESULT AND INCREASE IN DIVIDEND

FOR THE YEAR ENDING 31 MARCH 2016

Argosy Property Limited ("Argosy" or the "Company") is pleased to report its results for the year ending 31 March 2016.

Argosy has produced another strong result and has delivered ahead of guidance, achieving an excellent result for shareholders. We have continued to make significant progress on repositioning the portfolio in line with our strategy with the acquisition of quality property, tenant driven developments and the divestment of non Core assets. Most notably, Argosy divested the 44 hectares of vacant land at the Manawatu Industrial Park in Palmerston North in March for $23.3 million.

Operating results have continued to improve, with increases in both net property income and distributable income. The metrics of the portfolio remain strong with a high occupancy rate at 99.4% and a WALT of over five years

It is very pleasing to be able to announce that shareholders will receive an increased final cash dividend of 1.525 cents per share, taking the full year dividend to 6.025 cents per share, ahead of guidance.

2016 Highlights:

- **Gross distributable income increased to 7.60 cents per share (up 7.5%)**
- **6.0% compound annual growth rate of gross distributable income per share since 2012**
- **Net distributable income increased to 6.25 cents per share (up 3.8%)**
- **Strong year for divestments totalling $60.0 million, including the sale of 44 hectares of vacant land in Palmerston North**
- **Acquisitions totalling $48.0 million, including 8 Nugent Street, Grafton, Auckland for $42.0 million**
- **FY16 dividend increased to 6.025 cents per share**
- **Net property income increased to $98.4 million (up 8.2%)**
- **Occupancy (by rental) stable at 99.4%**
- **Weighted average lease term stable at 5.24 years**
- **Valuation gain of $42.2 million, up 3.2% on book values**
- **Implementation of new property management and health and safety systems**
- **Adoption of health and safety policy and health and safety strategic goals**
- **Extension of the syndicated banking facility on improved terms.**

Financial Results

Profit before tax

As a result of Argosy's repositioning of the portfolio and rental growth, net property income increased by $7.5 million to $98.4 million (2015: $90.9 million), an increase of 8.2%.

Earnings before finance costs, property revaluations and tax increased to $89.4 million (2015: $83.0 million), a 7.7% increase.

Interest expense has increased by $1.4 million compared to the previous period. The increase in average debt levels over the year of $44 million was largely offset by a reduced weighted average interest rate. Capitalised interest in the current year of $76,000 was significantly lower than prior year capitalised interest of $1.3 million, which related to the Stout Street development in Wellington.

Profit before tax, after allowing for the non-cash impact of interest rate swaps and property revaluations increased to $83.6 million, compared to $68.6 million for the previous period.

Distributable income

Argosy has again achieved a better outcome than had been forecast at the commencement of the year. Gross distributable income[1] has increased by 7.50% to 7.60 cents per share, from 7.07 cents per share in the previous year. Gross distributable income per share has now grown by a compound annual growth rate of 6.0% over the past five years.

Net distributable income has also increased to 6.25 cents per share from 6.02 cents per share in 2015, a 3.82% increase. The dividend payout ratio is 96.8%.

Capital Management

Current leverage

Argosy's debt levels, excluding capitalised borrowing costs, were 36.7% of total assets (31 March 2015: 37.8%). The target debt-to-total-assets ratio remains at the 35% to 40% gearing range and it is pleasing to be able to report that we remain comfortably within this target range.

Bank facility

Argosy restructured its syndicated bank facility in August 2015. Following the restructure, the expiry of the first tranche ($275 million) is 30 September 2018 and the second tranche ($275 million) is 30 September 2020. An additional tranche of $50 million was also added to the facility but was subsequently cancelled on 31 March 2016. The weighted average debt expiry at 31 March was 3.5 years. As a result of the restructure, Argosy has been receiving further margin and line fee savings.

Argosy continues to maintain strong relationships with its banking partners and remains well within all bank covenants.

Dividends

The Board is pleased to make a full year cash dividend of 6.025 cents per share which is ahead of guidance. The dividend has remained flat over the past four financial years as Argosy transitioned into a taxpaying position.

The final quarter dividend of 1.525 cents per share, with imputation credits of 0.1972 per share attached, will be paid to shareholders on 29 June 2016. The record date will be 15 June 2016. The dividend reinvestment plan (DRP) will continue with a discount of 1% applied to the price at which shares will be issued under the DRP.

The Board can confirm that, based on current projections for the portfolio, a dividend of 6.10 cents per share is expected to be paid for the year to 31 March 2017.

Portfolio activity

Market Update

Reductions in the OCR have resulted in an increase in investor activity and a subsequent firming of yields across all sectors, especially in Auckland and Wellington where 94% of Argosy's properties are

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[1] 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 24 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

located. While property investment continues to look expensive on an historic basis, net absorption continues to be positive indicating it is hard to see any catalyst for change in the foreseeable future.

According to CBRE research, a reduction in incentives and modest growth in face rents provided modest rental growth in 2015, which sets the backdrop for a more sustainable pattern for future rental growth.

Vacancy remains at low levels, most notably in Auckland's industrial and prime office sectors.

Leasing

2016 has been a successful year with regards to leasing. We started the year with 11.8% of the portfolio (by rental) expiring within 12 months and we have managed to successfully re-lease the majority of these leases. Among these successes was a new 15 year lease to Compac Sorting Equipment at 4 Henderson Place, Onehunga, an 8 year lease renewal to EziBuy at 31 El Prado Drive in Palmerston North and a 9 year lease renewal to Farmers Trading Co. Limited at the Albany Mega Centre in Auckland.

Occupancy (by rental) has improved to 99.4% from 99.2% at 31 March 2015. Outstanding lease expiries for the period to 31 March 2017 were 10.1% at 31 March 2016.

During the year, 45 lease transactions were completed, including 15 new leases and 30 lease renewals and extensions. The weighted average lease term remains at historically high levels and was 5.24 years at 31 March 2016, compared with 5.54 years at 31 March 2015.

Acquisitions and Major Projects

In September 2015, Argosy acquired the property at 8 Nugent Street, Grafton in Auckland for $42.0 million. This is a quality, 4 green star designed, office building in an area where Argosy already owns two properties (25 Nugent Street and 99 Khyber Pass Road). It is pleasing to note that at year end the building had an $850,000 revaluation uplift.

Consistent with Argosy's strategy of working with existing tenants, we have entered into a number of tenant driven acquisitions/developments within the portfolio.

In November 2015, Argosy announced the agreement to acquire a property adjacent to Argosy's current industrial property at 19 Nesdale Avenue, Wiri in Auckland. The property, at 240 Puhinui Road, Wiri, entails the purchase on completion of a new design/build facility from one of Argosy's existing tenants, Cardinal Logistics ("Cardinal").

The property, whose design and specifications will be identical to the very high, modern standard of the existing facility, is to be acquired for $22.6 million. Settlement of the new building is expected in December 2016. New 15 year leases have been agreed with Cardinal for both buildings.

Argosy has agreed to acquire 22,575 square metres of land at Highgate Business Park in Silverdale, Auckland for $8.1 million and will undertake a $14.2 million development at the site for Mighty Ape, also an existing tenant in the portfolio. The development will consist of 9,000 square metres of warehouse and 1,500 square metres of office, as well as 116 carparks, with practical completion expected to be September 2017. It is expected to have a return on cost of 7.35%. Mighty Ape has agreed to sign a new ten year net lease commencing from the date of practical completion, with two yearly rent reviews to market.

The $7.5 million redevelopment at 8 Foundry Drive, Christchurch, which was damaged during the earthquakes in 2010 and 2011, is progressing well and is due to be completed later this year.

Argosy was also pleased to announce a modernisation upgrade to the Citibank Centre in Auckland which will include a laneways style development called "Snickel Lane". The new laneway will complement the surrounding area which includes Fort Lane, the Fort Street Precinct and Imperial Lane.

New Zealand Post House

Argosy has been working with New Zealand Post to achieve an outcome that reflects the changes in the NZ Post business and is beneficial to both parties. The remaining upgrade work to the building at Waterloo Quay in Wellington has been revised as a result of NZ Post's changed accommodation requirements.

A new 10 year lease to NZ Post has been agreed over 85% of the net lettable area of the building, with the top 3 floors remaining vacant. The new lease replaces the current 5 year evergreen lease over the whole building.

After year end, NZ Post made a payment of $12 million to Argosy, $6 million as a reduction of the original purchase price of the building and $6 million in consideration for the termination of the lease over the top 3 floors.

A new construction contract with Hawkins Construction NI Limited has been agreed. The expected cost of the new construction contract is $13 million and the project will provide functional improvements to the lifts, stairwells, ablutions and other associated services.

Divestment of non Core Assets

A key strategy of Argosy is to divest vacant land and non Core assets and we have been very successful at achieving this over the past year.

The most notable disposal of the year was the sale of 44 hectares of vacant land at the Manawatu Industrial Park (the Park) in Palmerston North. Argosy has held an ownership interest in the Park since it entered into a joint venture in 2006 to acquire a 50% interest.

Other assets that were disposed of during the year included the Porirua Mega Centre for $11.5 million, 65 Upper Queen Street, Auckland for $6.5 million and the Storage King building at Wagener Place, St Lukes, for $10.5 million.

Following these disposals, 8% of the portfolio is considered neither Core nor Value Add and will be divested as market conditions allow.

Valuations

An independent revaluation of the portfolio was undertaken as at 31 March 2016, resulting in a full year gain of $42.2 million, a 3.2% increase on the book value of the portfolio (note that $27.6 million was included in the interim accounts at 30 September 2015).

The Company's portfolio following the revaluation shows a passing yield on values of 7.57% and a yield on fully let market rentals of 7.53%.

Strategy

Our investment strategy remains unchanged. Argosy's portfolio will consist of Core and Value Add properties. Core properties are well constructed, well located assets which are intended to be long-term investments (>10 years). Core properties will make up 75% to 85% of the portfolio by value. Core properties enjoy strong long-term demand (well located and generic), a leasing profile that provides for rental growth of at least CPI and good structural integrity with minimal maintenance capital expenditure required.

Value Add properties are assets which, through skilled asset management, can increase future earnings and provide capital growth. Value Add properties will already be well located with the potential for strong long-term tenant demand. These properties are available for near to medium term repositioning or development with the view to moving into the Core category.

More detail on Argosy's strategy can be found on pages 16 and 17 of the 2016 Annual Report that was released today.

Governance

At the Annual Meeting in August 2015, Chris Hunter and Jeff Morrison were re-elected as independent Directors. At the date of this report, the Board comprised six Directors who are all independent.

The 2016 Annual Meeting of shareholders is scheduled to be held at 2pm on Tuesday, 9 August 2016 at the Royal New Zealand Yacht Squadron, 101 Curran Street, Westhaven Marina, Auckland. Michael Smith and Peter Brook will retire in accordance with the Company's constitution and the NZX Listing Rules, and will be eligible for re-election. Nominations for Directors are now being accepted. The closing date for nominations is 9 June 2015.

Outlook

The efforts of the Argosy team throughout the year have produced another good result for our shareholders. Favourable market conditions have continued and low interest rates and solid economic growth are expected to remain for the foreseeable future.

We are confident that with a diversified portfolio of good quality and well located properties, a clear investment strategy and the continued application of a patient, careful and disciplined approach to property investment and management, the Company remains in a great position to enable us to make the most of these economic conditions.

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